# VOL. V.

# MINUTES OF EVIDENCE

## TAKEN IN LONDON

BEFORE THE

# ROYAL COMMISSION

ON

# Indian Currency and Finance.

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# ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE

## LIST OF WITNESSES EXAMINED.

| Date. | Name. | Pages of Evidence. |
|---|---|---|
| 1926. March 1st, 3rd and 5th. | Mr. Cecil H. Kisch, C.B., Financial Secretary, India Office, London ... | 1–45 |
| March 8th ... ... | Sir James Brunyate, K.C.S.I., C.I.E. ... ... ... ... ... ... ... | 46–62 |
| March 10th and 12th | Mr. Cecil H. Kisch, C.B., Financial Secretary, India Office, London ... | 63–90 |
| March 15th ... ... | Mr. A. Bowie, General Manager and Director of the Allahabad Bank, Ltd., (Calcutta). | 91–106 |
| March 17th ... ... | Mr. M. M. S. Gubbay, C.S.I., C.I.E., General Manager and Director of the P. & O. Banking Corporation, Ltd., London. | 107–127 |
| March 19th ... ... | Dr. T. E. Gregory, D.Sc. (Econ.), Lon., Professor of Currency and Banking in the University of London. | 128–144 |
| March 22nd ... ... | Mr. John Maynard Keynes, C.B., Fellow and Professor of King's College, Cambridge. | 145–161 |
| March 24th ... ... | Dr. Edwin Cannan, M.A., LL.D., Professor of Political Economy in the University of London. | 162–171 |
| March 26th ... ... | Mr. Joseph Kitchin, Manager and Director of the Union Corporation, Limited, London. | 171–185 |
| March 29th ... ... | The Rt. Hon. Montagu C. Norman, P.C., D.S.O., Governor of the Bank of England, and Sir Charles Addis, K.C.M.G. | 186–199 |
| April 14th ... ... | Mr. Charles Nicoll, General Manager of the National Bank of India, Ltd., on behalf of the British Exchange Banks. | 199–209 |
| April 16th ... ... | The Rt. Hon. Lord Bradbury of Winsford, G.C.B. ... ... ... | 209–223 |
| April 19th ... ... | The Rt. Hon. Montagu C. Norman, P.C., D.S.O., Governor of the Bank of England, and Sir Charles Addis, K.C.M.G. | 223–237 |
| April 21st ... ... | Sir Stanley Reed, K.B.E., Director of the Bombay Electric Supply and Tramways Co., Ltd., Bombay. | 237–251 |
| April 23rd ... ... | The Rt. Hon. Montagu C. Norman, P.C., D.S.O., Governor of the Bank of England, and Sir Charles Addis, K.C.M.G. | 251–263 |
| April 30th ... ... | Mr. George E. Roberts, Vice-President of the National City Bank of New York. | 263–274 |
| May 7th, 10th, 11th and 12th. | Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York; Dr. Jacob H. Hollander, Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland, U.S.A.; and Dr. Oliver M. W. Sprague, Professor of Banking and Finance, Harvard University, Cambridge, Mass., U.S.A. | 274–330 |

# MINUTES OF EVIDENCE

TAKEN BEFORE THE

# ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE

## AT THE COUNCIL ROOM, INDIA OFFICE, LONDON.

### TWENTY-NINTH DAY.

**Monday, March 1st, 1926.**

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR } (*Secretaries*).

Mr. CECIL H. KISCH, C.B., called and examined.

10,764. (*Chairman.*) You are the Financial Secretary at the India Office?—Yes, and have been so since 1921. Prior to that I was Deputy-Financial Secretary. In 1919 I was one of the Secretaries of the Babington-Smith Committee. Previous to that I had the ordinary service of a Civil Servant in the Office, including periods of Private Secretaryships to Secretaries of State, Mr. Chamberlain and Mr. Montagu, towards the latter portion of the War. My only recent Indian experience was in connection with the visit of Mr. Montagu to India, when I was there for about six months in another connection.

10,765. What was that year?—That was 1917-18. Prior to that I was a member of the Financial Department.

10,766. We understand, from your memoranda,* that in the evidence which you are going to be good enough to give us you are expressing your own personal opinion, and not the opinion of the Secretary of State in Council, or an official opinion?—That is so.

10,767. You have been kind enough to provide us with very full memoranda, which cover a good deal of ground. You supplied us with the more historical memorandum before we went to India, and you have provided us with memoranda Nos. 3, 4 and 5 since our return?—That is so.

10,768. I propose to ask you to assist us first in relation to memorandum No. 3, which is a "Note on proposals for promoting a Gold Currency in India." It is so full that I need only pick out some salient points on which to ask you to assist us further. You agree that the ideal currency system for India is one under which the note is the sole full legal tender in circulation, and the gold or external value of the note is maintained by the statutory obligation to buy and sell gold at certain fixed rates based on the par of exchange?—Yes, I agree that is an ideal to be worked up to. I have to take what Mr. Denning says in his memorandum, namely, that for present purposes one must accept the view that India requires a full legal tender metallic coin. I think Mr. Denning says in his memorandum that he is not prepared to envisage a period at which it will be unnecessary to have such a coin; and that accords with my own experience of Indian currency matters, and also with conversations I have had with people who are familiar with the subject.

10,769. Do I understand you to say that at no future time, however distant, can you envisage a period at which India will be able to do without a metal coin which will be full legal tender?—I can only deal with the present generation. I should hope in time to come that that will be possible, but as a practical question I think we have to deal with the fact that, as things stand to-day, and as they are likely to be for an indefinite period, there is and will be need, so far as I can judge, for a full legal tender metallic coin.

10,770. In any case India is a country in regard to which changes of currency must possess a special danger?—Certainly. I think that is one of the most important aspects of the question before this Commission, that, so far as the ordinary untutored peasant is concerned, whatever changes are made should leave him as undisturbed as possible.

10,771. That is the central reason which makes you reluctant to contemplate a limitation of the legal tender of the silver rupee?—As a practical matter it seems to be conceded, even by the advocates of the gold currency so far as I can judge, that whatever is actually done by way of law or regulation, the rupee will, for all intents and purposes, continue to be unlimited tender in practice. I base that opinion not only on what is said on that particular point, but on the fact that the Indian

* Appendices 68-73.

Finance Department memoranda seem to contemplate that at the completion of the gold exchange operation the active rupee circulation will not be materially different from what it was at the beginning.

10,772. If you are in agreement with that ultimate ideal, no doubt also you agree that the system under which you have three forms of full legal tender money in circulation, namely, notes, silver rupees and gold coins, is a cumbrous one?—It is not perfect, but it is a system which prevailed in France for a very long time up to the War. It seemed to answer all right there. As far as India is concerned, how far the gold coin circulated in practice is an important consideration in the question. If the actual circulating media are silver rupees and notes, you have in effect two forms of token currency circulating, and you have not any full valued currency circulating. To that extent the situation in India would approximate more closely to the ideal than if you had an active gold circulation of full valued gold coins.

10,773. You have under that system two forms of notes, the paper note and the silver note each convertible into the other?—Yes.

10,774. Has that anything to recommend it from the theoretical point of view?—I have always heard that the free convertibility of the note was an indispensable condition to its successful development in the early days of note circulation. Its development was characterised by a desire on the part of the Government of India to increase as far as possible the opportunities for free convertibility into rupees. I believe that that fact—that the paper token has been convertible into the silver token—has played a valuable part up to the present time in promoting the development of the note circulation in India.

10,775. I suppose it might be said that the basis of any note circulation must be that it shall be freely convertible into something better than itself?—I should say so. In India importance has hitherto been attached to its free convertibility into a coin. May I say another word on this point of convertibility? I regard it as an important matter, not only from the point of view of the development of the note circulation but important from the point of view of the general banking habit. History has generally shown that the banking habit is reached through three stages. In the first stage the man insists on having metal; then he is afterwards content with notes, and finally he is content with an entry in a pass book. I think history shows that in countries where the banking habit has been developed it has generally been through the development of the note circulation. I should, therefore, regard it as a most serious matter if anything were done which set back the development and the growth of the note circulation, as likely to impair the development of the banking habit.

10,776. I want to clear up one or two points on which I have some doubt as to your real intention before going more deeply into the matter. When you deal under (A) with the possibility of the price of silver rising above the melting point of the rupee, what are you contemplating in your argument there? Are you contemplating that if that is so the exchange value of the rupee should be put up in order to protect the silver circulation?—As far as I can see, the question of a rise in the price of silver, threatening to reach the melting point of the rupee, would be likely to be one aspect of a general depreciation in the purchasing power of gold. In other words, a rise in the price of silver would be associated with a rise in prices of commodities generally of a very formidable character. In that case India would be in a position to protect herself against gold depreciation by raising her exchange, as she did in fact towards the latter part of the War, and as she has in fact done at the present time by have a 1s. 6d. rate as against a 1s. 4d. rate.

10,777. You are really saying that such a rise in the price of silver can only come as a part of such a general convulsion as would probably shake the Indian exchange out of its stability, whatever happened?—I am not at all sure that if a rise of that sort happened again it would not shake the gold standard out of existence. If the experience that the world has had of gold vagaries since 1914 was repeated again within the lifetime of the present generation, people would really begin to question as to whether we ought not to go on to some form of a standard managed so as to maintain stability of commodity prices. I do not, of course, say, and it would be foolish for one to pretend, that gold depreciation is the only conceivable way in which a rise in price of silver might occur, but as things stand to-day I do not see any serious danger of a rise in silver from any other reason. I cannot of course speak positively about such a matter.

10,778. Is it possible to be at all confident that a rise in the price of silver can only come as a result of a catastrophic fall in gold prices, if one considers that the price of silver seems nowadays to follow general commodity prices over long periods of time, and that, in particular, at the present time, the price of silver seems to be rather under-valued in comparison with general commodity prices? As the price stands, it is inexplicably low in view of the general rise of commodity prices since the War. Would it not be natural to expect a substantial rise in the price of silver, to bring it into relation with other commodity prices?—The production of silver is associated, as you all know, with the production of other metals, and I think that output has lately tended to be fairly constant. The demands for silver, on the other hand, are not of such a constant character. The fact that the Indian Government has been out of the market and itself holds a vast store of rupees no doubt has an influence on the present relatively low price of silver, as compared with other commodities; but a rise to 47d. or 48d. would be a very formidable increase over the present figure, and I should suggest that a rise of that sort, or anything like it, is only likely to be associated with the general depreciation of gold.

10,779. You are not, then, under the impression that there is any necessity of providing in the Indian currency system any automatic protection against a rise in the price of silver?—I think there are various brakes which could be put on so far as India herself is concerned. There is the reintroduction of the one rupee note, which is a method of economising the demand for silver. Then there are the various other suggestions which were put before the Babington Smith Committee, such as the minting of a two rupee piece with a lower proportional silver content. I do not know what the present opinion on that matter is; in 1919 the idea was rejected. But nowadays one finds that views which were then generally accepted are apt to be thrown over. I do not know what present-day opinion would be on a point of that sort.

10,780. That is as to the possibility of reducing the silver fineness?—No, I was not thinking of the one rupee. The idea of reducing the fineness of the one rupee piece appears now, as then, to be universally condemned. I had in mind the possibility of minting a two rupee piece of a proportionately lower silver content than the present one rupee piece; devices of that sort, and the reintroduction of the one rupee note. One must remember that during the war an unprecedented strain in the way of supplying the currencies and liquidating the trade balance of the East was thrown on to silver because gold was being bottled up by all countries. One does not, at present anyhow, see a likelihood of the bottling up of gold in the way in which the world suffered it in the war, and this was one of the factors which contributed to driving up silver to disproportionate heights. There is that important brake, which was lacking in the course of the Great War.

10,781. You deal with the possible effects in relation to the demands for conversion of silver rupees into

gold mentioned in Sir Basil Blackett's proposals, and you say that the interest of bullion dealers would be to discredit the rupee, and to collect as many rupees as they could from all quarters and present them for conversion. They cannot collect the rupees without paying for them, so is not there a limit to the power of financing them for the purpose of getting the gold from the Government, necessarily in anticipation of its subsequent sale to the public?—I do not know how quickly they would be able to make the turnover. They obviously must have a certain amount of working capital with which to begin the operation, but, armed with a certain quantity of gold, the suggestion would be that they would go up country with a stock of gold, inform the Indian peasantry that the rupee was being exploded and was likely to be reduced in value to, say, 12 annas, and they would then exchange the gold at a discount for the rupees, take the rupees back to the Government, replenish their gold again, and the process could be repeated continuously during this period, whatever the length of time is during which the operation goes on. It would obviously be a most attractive and paying operation if you could manage to get the untutored country folk of India to disgorge their rupees on a 14-anna basis.

10,782. You think, once the alarm had been given, the financial consideration would not act as a sufficient check in the speed with which the conversion would proceed?—I do not quite follow that.

10,783. Once the alarm has been taken by the holders of rupee hoards you think that that financial brake as regards the finances of the dealers and brokers would not act sufficiently to check the speed at which conversion would proceed?—I rather doubt it. It takes a long time for ideas to get up and down the length and breadth of India, large parts of which are remote from railway centres, and the people of which are ignorant. It would probably take a considerable time before the whole purport and the underlying motive of the transaction was brought home to the villager, and there would be a considerable time available for the exploitation of the ignorant.

10,784. I understand from your memorandum that you do not place any reliance upon this estimate of the limitation of the initial demand to 50 crores?—I think it is quite conceivable it might come on you with more of a rush than that. I do not want to question the actual estimates in the Finance Department memoranda, because any estimates I could give would not be based on such a first-hand acquaintance as theirs, and would be open to equal question. All one can say is that such estimates are to a large extent conjectural. My suggestion is that if this idea of the blowing up of the rupee were to get widely known, people would take steps to get rid of whatever they could spare, as they got opportunities of doing so, but I think it would take a longer or a shorter time for the project to get known according to whether the place was near to a big town, and so on. It would get known in the big towns very soon, and it would gradually spread to outlying districts. I could not at all say that 50 crores would be sufficient, particularly as I think it might threaten the trust in the note, and lead to a demand for note encashment.

10,785. As regards the estimate of 110 crores of rupees as the total amount likely to be presented by the public, we have had it in evidence that that would leave 150 crores outstanding for the public for smaller transactions. Have you been able to form any opinion as to whether that estimate is reliable or not?—No; I cannot really form an opinion better than that of the authorities in India. It does not seem to leave any unduly large amount per head of the population as far as one can see, but it is a curious thing to me that the actual circulation of the rupee seems to be very much the same after the operation as at the beginning. I should have thought there would have been a certain number of rupees from the actual circulation given up in exchange for gold before the operation was completed.

10,786. From your memorandum I gather that you look to the period when, after the conversion of the hoards, there will still be, say, 150 crores of rupees in circulation, and you rather criticise some of the suggestions contained in Sir Basil Blackett's and his assistants' memoranda on the ground that one would still have to consider those 150 crores as being used in practice as unlimited legal tender, whatever the law might be, and as being necessarily capable of contraction, and therefore having to be taken into account as a liability and in support of the exchange value of the rupee?—Yes. I think when you have got 150 crores of rupees in circulation and 190 crores of notes, which is about the figure taken, you must allow that if there is a return from circulation owing to any redundancy, the return will include, at any rate, a proportion of rupees, and that some place for those rupees must be found in Indian financial economy. The idea I had in mind was that if rupees were not an unlimited legal tender the banks would not want them. I do not think that, if the rupee enjoyed in common practice the quality of a full legal tender, it would be practicable for the banks to refuse them. When, on the other hand, they do get back to the banks they would be clogging the banking machinery unless the banks could be relieved of them; and it is obvious in such a case that the only authority who can relieve the banks is the Government. That was the chain of thought.

10,787. I would like to know what you would say to this point of view. The gross amount is enormous, 150 crores, but if you regard it as proportional to the population and its needs it is no bigger than the small silver which is employed in the currency system of other countries. According to the estimate given us in evidence it is only 6 rupees per head, and here in England you have 22s. per head of population. It might be asked why, that being so (i.e., that it is only a reasonable allowance of small change per head of the population), if it is no longer standard coin of full legal tender, should the Indian currency system take any more account of it than is taken account, for instance, of silver in the British currency system as a liability in respect of the support of the standard of the country?—In that connection one must consider also the large deposit currency of this country, that is the cheque circulation of the country. If you bring the cheque circulation in this country into account and the note circulation and the silver circulation you will find that your silver circulation here plays a much smaller part in business than it does in the case of India, where the deposits of the banks are somewhere in the neighbourhood of 200 crores, notes another 200, and rupees, say, 150 to 200. It is roughly a third of the total there, whereas in this country (I was looking at the figures the other day) the bank deposits are somewhere in the neighbourhood of 2,300 millions and the currency notes are something like 400 millions; in relation to these figures, the silver circulation of about 50 millions has a minor significance. The point is that a comparison limited to silver does not bring out the full importance which the rupee plays in Indian economy. As in the past it has been necessary to maintain a reserve to deal with redundant rupees, and if the same number of rupees are going to continue in circulation hereafter one must assume that much the same risks of redundancy will continue hereafter as in the past.

10,788. You dwell also in several places in your memoranda upon the point that more weight should be given, in your opinion, than is given in Sir Basil Blackett's memoranda to the possibility of the substitution, as the result of his proposal, of a note circulation by gold circulation?—Yes.

10,789. Will you expand that?—I look at it in this way. We are all familiar with the appearance of

a rupee. If you have to carry 20 rupees with you, you have a little pile which weighs quite a substantial amount. Therefore it is an obvious advantage to use a note; but if you are going to introduce a high-valued gold coin, the alternative of carrying about a few gold coins instead of a large number of rupees would present some attractions and might make the user turn to the gold coin. In view of India's attitude towards gold one must assume that many of the people who have been in the habit of using notes because paper is more convenient than a number of rupees would turn to using gold, which would be quite a convenient thing to carry about. I think that is one way of looking at it. Also we know that gold is a full-valued coin. It has a certain prestige of its own. The idea that Government was introducing catastrophic changes into the currency habits of the people might produce a certain anxiety in people's minds, against which they would naturally protect themselves by taking advantage of Government's offer to give them gold for paper or silver. In the Finance Department's memoranda one sees signs of some uneasiness on the point, because there is reference to the possibility of large holders of rupees being induced to postpone. That seems to suggest a certain nervousness in introducing the gold currency scheme. One cannot help reading into that a certain misgiving about the whole operation, and if you are coming forward with a gold offer of the kind in view, I can imagine no more unsatisfactory or undesirable thing than to have to begin by making demands on the favour of your customers. The persons who had large hoards would naturally say, "I will take advantage of the offer now while it is on; I cannot be certain that in three years it will still be on."

10,790. I wanted to put an opposite contention to you on that, and that is this. We have had it in evidence more than once that, if exchange became stable, part of the recent heavy absorption of gold would be coming out into currency. Instead of a drain on Government gold reserves there would be an addition to the gold reserves coming back from their present hoard or a store of value of one sort or another. What do you think about that? Do you look forward to seeing any effect of that sort?—You mean assuming the exchange was stabilised and there was an offer to give gold to the public in exchange for rupees and notes?

10,791. The argument is that confidence would be established by reason of two things—the stability of the exchange and the knowledge that gold was obtainable whenever it was required. The result this would produce would be so effective that the gold would come out into circulation or come back into the banks' reserves from its present employment as a hoard or a store of value?—I do not see why it should come back from the place where it is serving as a store of value into the bank reserves unless it was part of the development of the banking habit among the people. I can quite imagine that some holders of bullion would take advantage of an offer to get that bullion converted into coin, but they could take away the coin again and keep it once more in store. I do not think there is any reason, apart from the growth of the investment habit, for holding that the circumstances mentioned would in themselves bring the gold now held by individuals as a store of value to the banks. The easy opportunities for getting gold would, I suggest, be equally if not more likely to promote the habit of storing gold.

10,792. At one point in your memorandum you emphasise that, as regards the security of the Government during the early stages of the introduction of the Finance Department's scheme, an adverse trade balance to which India is liable might involve additional sterling borrowing to support the exchange. I wonder if you could tell us, from your long experience, how many times during the last 25 years such a condition of affairs has arisen as would have this result to which you refer?—During the last 20 years or so the Government has had in London a gold standard reserve, large sterling reserves on which one could draw. We are now contemplating a condition of things in which these reserves would have been utilised in acquiring gold for exchange into silver. Therefore any special borrowing which the Government of India might have to do in order to finance its gold programme would be supplementary to borrowings for the ordinary financial purposes of the Secretary of State. In that state of affairs additional borrowing to finance gold imports for exchange would I suggest be prejudicial to India's credit. Since the gold exchange standard was in full swing there have only been a few important occasions when we have had serious adverse balances involving the sale of reverse Councils. I was thinking in particular of 1908-9, 1914-5 and 1920—something also towards the end of 1919, I think—about half a dozen cases in all.

10,793. On each of those occasions to which you refer I understand there was such a state of affairs as regards the trade balance as would have had this adverse effect upon such a scheme?—I think that if at any time the Government of India were borrowing heavily here you would have had to raise the question as to whether or not the progress of the gold scheme if it also entailed raising of credits should not be slowed down at any rate. The gravity of the situation would determine the actual policy. There is always a risk in a case of that kind, if you are forced to borrow very heavily for current purposes, of people beginning to question the whole basis of your policy. If Indian financial conditions were suffering a serious, even if temporary, set-back it is quite conceivable that the whole gold policy itself would be brought under review.

10,794. Let us see what the state of affairs would be by an actual instance. Supposing vicissitude were to occur before the conversion of rupees into gold had progressed very far. The question is would not there be sterling assets or unused external credits which would be adequate to tide over the period? For example, supposing 50 crores of rupees had been converted, and sterling to an equivalent amount had been used up: at that time there would still be 59 crores of sterling assets, and, say, 30 crores of external credits?—The external credits would be raised as they were required.

10,795. That, I think, is the figure which Mr. Denning is contemplating. Would not the position be safe then?—You have to maintain the convertibility of your note during this stage as well, and some of your 59 crores of assets are represented by gold in India held against the liability for internal conversion of the note. I think that is so, is it not?

10,796. Yes?—So the whole of that amount is not available for external exchange. It has generally been thought that a very considerable amount of metallic legal tender ought to be held in India to secure the convertibility of the note. Certainly the Babington Smith Committee did not contemplate the amount being below 40 per cent. of the circulation to secure complete confidence. If an adverse position arose in India for any reason, the authorities might find themselves in need of considerable quantities of gold for the conversion of the note, because people might begin to be a little uneasy. If the set-back was not prolonged, and only limited to one season, one might get through on the reduced reserve, but in these kind of things one does not want to take risks or to find oneself in any danger of being short. You have to remember that the liability of the Secretary of State on revenue account—apart, that is to say, from any capital borrowing required for railway finance—runs to the neighbourhood of about 28 million sterling a year nowadays, which of course hitherto might have been financed in part at least from the gold standard reserve, there being a corresponding lock-up of funds in India. It is pretty clear that one can get through a very large amount of sterling in a very short time if remittances from

India are dried up. If remittances from India dried up for one year it would mean 28 million straight away required for home charges, that is apart from capital requirements which would presumably be financed by loan. At all times the authorities would have to keep in India a considerable amount of gold coin presumably—or gold—to deal with the conversion of the note. I take it that at this stage one would be extremely reluctant to put out silver again which had just been bought back at a heavy price? Therefore you would only be able in effect to utilise gold for meeting any demand for note encashment. At a time when you are undertaking a very far-reaching currency reform you want to have your reserves on a very ample scale.

10,797. On the question of the sufficiency of the reserves, you say that 30 per cent. for gold and sterling reserves during the early stages of the scheme is inadequate?—That is so.

10,798. But is not that 30 per cent. an addition to the provision of sterling for the conversion of the redundant rupees?—That 30 per cent. represented, I think, the whole of the gold and sterling assets held in the paper currency reserve in the scheme, which is, therefore, to deal with the redundant rupee currency, and any demand for internal conversion of paper into metal.

10,799. But in addition you would have whatever external credits you had raised?—Yes. But the opportunities of raising external credits for the credit of the Government of India would be prejudiced by a scheme of this character. First of all people would undoubtedly question the wisdom of a change involving such a complete upset of the settled habits of generations—a change which would appear not to accord with accepted modern currency ideas. As regards the actual investor, he would not have the satisfaction of the confidence which is now given by the knowledge of the very large sterling reserves held by Government. So I think, both from the point of view of the trained economists and financiers, and from the point of view of the public, the scheme would not be attractive. The raising of the external credits would raise all kinds of questions as to the wisdom of the process which made these external credits necessary.

10,800. Do you think, in estimating the credit of the Government of India, the world at large pays much regard to foreign reserves?—I think with regard to the investor in this country, who is the person primarily concerned, confidence is given by the fact that there are very large sterling assets held in this country on behalf of the Government of India. These assets are always known to be there. I think that does have a very important bearing.

10,801. That is a special circumstance in India's credit position in comparison with other countries? —Yes, because she relies for her finance, and her trade depends so much, on this centre.

10,802. Under the head "Security of Government during process," after the gold circulation is established, you compare the figures of notes and of gold and silver and of what they would be under the bill of exchange standard. Have you taken into consideration the 150 crores of rupees in hoards under the gold exchange standard which would not exist under the gold standard?—Yes. I am dealing there with the active circulation. I do not include the immobilised rupees in hoards in those figures. As a matter of fact, when I wrote these memoranda I had not had the advantage of seeing the evidence of the officials of the Indian Government, and my figure of 200 crores of rupees under the gold exchange standard apparently ought to be more like 160. It was not clear to me from the early memoranda how much of this initial 100 crores was going to go out in the stage before there was any gold coin, and I assumed for the purpose of hypothetical calculation that a certain amount of it would go out in the form of coin; but, as you say, the immobilised rupees in store are not included there.

10,803. I want to get a little closer to your mind with regard to this question of linking the rupee to gold or to sterling. Should I be right in thinking that the tendency of your memorandum is rather to minimise the importance of any form of linking with gold in comparison with sterling?—I think we have at the outset to form some idea as to how far the return of sterling to gold is to be regarded as permanent. If you hold that the return of sterling to gold is permanent, except for such conceivable emergencies as are of a magnitude which would upset currency systems generally, then I think one ought not to lay too much stress on the distinction between sterling and gold in devising a sound system for India. We certainly held before the war that India was on a gold exchange standard. We did not hold she was on a sterling exchange standard. The idea of distinguishing between the two must be traced, I think, to the upset through which we have just come. For purposes of trade it is obvious that in fixing rates of exchange between the two countries the expression of those rates must be in sterling, but for practical purposes we regard sterling now as synonymous with gold.

10,804. Then, in view of the circumstance that India has come through a period in which there was a great upset owing to the divergence between gold and sterling, you do not regard it as natural that India should now say, as it were, that the link should be with gold because what has happened in the past may happen again?—I think it is quite natural that that idea should be abroad, and I think it requires to be ventilated, but I consider that the proper course is for those who understand the cause and circumstances of past events to explain to people the proper perspective, and I think, as I have tried to explain somewhere in my memoranda, that India ought to be asked to reflect how she would have come off had she remained on gold at the pre-established ratio during the last ten years. I think if that question is examined in its proper light those who understand it will be able to explain to those who do not understand it that India would have fared much worse under such conditions than she actually did fare. It is obvious that had she remained on the pre-established gold ratio her price levels would have fluctuated more widely than they have done. In 1919-20 the rise in prices in India, which even then gave great alarm throughout the country, would have been exaggerated; and in so far as it has been possible to mitigate the results of the depreciation of gold in the case of India to the extent we have it to-day, she would have lost these advantages. As I say, I think in considering this question India must consider what she would have experienced had it been practicable for her to remain on the pre-war gold ratio during this period of upheaval. One may ask what would happen if a similar upheaval occurred again. I do not think it is possible to predict, sitting here, what India's interest would be. I think she would have to consider what course she would adopt in that case in the light of the circumstances as they were at the time. It is not possible to say that if India were to link her currency at a fixed rate to gold it would in all circumstances be advantageous for her to continue that particular link if there was again another violent disturbance of the value of gold throughout the world.

10,805. Supposing it were to be put in this way—that we cannot be sure that what has happened once may not happen again, that sterling may not depart from gold in some future conditions which might not affect the world at large. Under those circumstances if India's currency is linked to gold and not to sterling it can fall back upon the dollar to the benefit of stability of Indian prices?—I think in the first instance one may ask as to whether India is going to be safer linked to the dollar than linked to the pound. There are elements of uncertainty for any country hinging on to the currency of

another country. I think India can rightly repose greater confidence in this country, with which she has political and financial ties of long standing, than she can in any other country, and that to transfer her currency allegiance from this country to another country, apart from the fact that it would not accord with the line of Indian trade, would not be in the long run in the interests of India. After all, any country has risks. There have been periods when the United States itself has been thought to be not free from political risks in its position with regard to other countries. One may hope these sorts of dangers will not materialise, but if they did materialise it is obvious that the reactions on India might be very inconvenient. She might, for example, find that the possession of dollar credits could not be utilised to the extent she had anticipated, whereas with this country—which does appreciate the demands and claims and rights of India—she is always sure of receiving the fullest consideration of any claim.

10,806. On a minor question of fact, you say that the securities in the gold standard reserve yield an average return of 4½ per cent. Was that the actual rate during the last two years, or was it not nearer 3½ per cent.?—I got that figure from our Accounts Department. We have recently re-distributed the securities, and it is possible that two years ago they may not have been yielding quite that figure, but I can get the exact figure for the Commission and let you know it definitely when I come before you again.

10,807. Now one or two questions on general policy. You say under the first head of your memorandum No. 3 that your remarks do not imply that gold coinage should not be undertaken in India if the people of India desire that the gold which they import should be stamped in small units with the Government hall mark of fineness and weight, and be available on occasion as legal tender. What in general is your opinion as to the desirability of adding to a gold exchange standard a gold currency of this optional nature?—I do not regard it as in any way an essential characteristic of a gold standard that there should be a gold coin struck in the country. On the other hand a project of this kind, though I do not attach much importance to it myself, seems to me to be comparatively inexpensive and harmless. As I say, it merely represents the placing of a Government hall mark on gold which either India already has or which she is likely to acquire in liquidation of her trade balance. It has to be remembered that India has had a gold mint in the past, and the people of India—or those who attach importance to this question—may want to have similar facilities again. I confess myself that I share Mr. Denning's view when he says that he does not think this gold would in the circumstances of which we are now speaking circulate to any material extent as currency. It would merely be a convenient form for storing it away. I think he says that unless the rupee is exploded the circulation of gold is likely to be of very small dimensions. That would accord with what one has learned from experience and with the experience of people who have had long acquaintance with Indian conditions. As I say, I do not regard it as an essential feature of the scheme, but as an excrescence of a relatively harmless character.

10,808. Under the next head you say: "It is recognised that the large additional drain of gold to India over the ordinary demand, which is already large, might seriously affect gold prices." Would you explain that? What is the nature of the difficulties which you apprehend, and what is their extent?—As things stand at present, a large supply of gold for India, over and above what she is taking in the ordinary way, would presumably have to come from the surplus holding of the United States. I should imagine that with careful management and wise guidance it should not be impossible to move to India a very considerable amount of gold from the surplus holding in the United States, assuming that the financial authorities looked with favour on the operation, without a general upsetting of discount rates in present conditions, but what the effects in the hereafter would be I am much more uneasy about, because having set on foot a gold circulation in India, with the increase in population, and so on, it is quite on the cards that the annual increment of coin, which in the past has largely taken the form of silver, would in the future turn more to gold, and therefore there would be not only an immediate demand for a large capital sum, but, probably for an indefinite period, a continuing additional annual demand, in good times, for increment to the currency in place of silver hitherto. I say all this with a good deal of reserve because though I believe that it ought to be possible to move a large amount of gold without a general upset, I cannot help having some hesitation as to whether in practice it would be done. I took a cutting out of a paper not long ago of the views of American bankers as to the question of gold movements in which the statement appears: "Our bankers would like to see a slow outflow of gold but fear that under the existing trade and stock market and real estate building conditions, any general outflow of gold would result in a sharp decline of commodity prices." Though I believe it might be possible, I apprehend there is a risk that even in the present it might have serious reactions, possibly from psychological causes, and that in the future the additional demand on gold might have a very serious influence in the future level of gold prices. I am rather inclined to support that view from something which Sir Basil Blackett says. On one occasion he said something to the effect that he believed that at the present moment when there is a redundancy of gold in America, this kind of operation might be set on foot, but if we wait a bit the gold may not be available for the purpose. From that I rather infer he himself recognises the danger that if things are left alone the surplus gold which is now in America might disappear in other ways, and therefore if the force of an additional demand for India is not immediately felt, ultimately it would be felt. I do not know whether that makes my meaning clear.

10,809. The final part of that paragraph reads: "Is it safe to set aside altogether the possibility of a fall in gold prices, especially if the demand for gold was increased by additional requirements for India for the purpose of providing a gold circulation?" I gather you are inclined to answer that question in the negative?—I do not think you can set it aside. I think it is a factor of which account must be taken.

10,810. You say: "If the solution of India's exchange problem is to be essayed while world conditions are still unstable, it would seem inopportune to add to the risks by any action that might tend to cause a rise in the value of gold." What conditions of instability have you in mind there?—To my mind the principal factor at the moment which produces a certain amount of uneasiness is the unequal distribution of the world's gold, because so long as a dominant country holds such large excess amounts of gold beyond what is required under its law or for sound practice one cannot feel altogether free from a risk that some time or other that gold may have its normal consequence by leading to a large expansion of credit, and set on foot a general rise in prices throughout the world. One would naturally prefer, if one could have it, that such a danger should be out of the way before one set to work to stabilise the Indian exchange. I am not recommending for a moment that it ought to be postponed on that account, but I think it is desirable that those who have to recommend on questions of policy should realise that there is at the present moment in the world a potential source of disturbance, and one does not know how long the policy of carefully controlling the value of gold will persist. It has been carried out with astonishing success for

* See No. 10,918.

some years now, and one hopes it will be continued, but it is always possible that political circumstances might lead to some change in policy—a change of personnel or other cause. Therefore in forming the policy for India at the present time one must realise that there is in the world, at any rate, that element of disturbance. There are, of course, other elements of disturbance, though perhaps less obvious.

10,811. In view of what you have just told us, is there any circumstance in current conditions to which, in your mind, weight should be attached in considering whether it is prudent at the present time to undertake a settlement of India's currency problem?—I think the particular influence I mentioned is probably the most important of the uncertain factors of the moment so far as India is concerned; that is to say, what is to be the future value of gold. On the other hand, we must attach importance to the fact that an increasing number of countries have come to the conclusion that things are not too unfavourable to justify the step. It has been done in this country. I think I have quoted a speech of the Chancellor of the Exchequer in which he said that we appear to have entered upon a period of greater stability throughout the world than before. Probably it is unavoidable that there should be some risks, and, on the whole, it is for the Commission to weigh up whether the risks are sufficiently great as to justify India adopting, when her internal conditions are sound, a policy of further waiting, when such a policy has been set aside by countries whose internal conditions are less sound.

10,812. Would you be prepared to give an answer to that question yourself? Would you be prepared to say whether it is advisable to wait or whether the times are ripe for a solution of the problem?—I should feel more confident if I had had the opinion of some of the authorities who were likely to know more definitely than I do what is to be the policy of the great central banks in this matter. If I was assured by such an authority as the Governor of the Bank of England that he did not anticipate any change in the policy which has been prevailing for the last few years, then I should say that India would be right in accepting whatever measure of risk there was in adopting a policy of stabilisation at the present time.

10,813. I understand you to couple that with the reservation that it is not prudent to make up your mind that the time is ripe so to deal with the Indian currency problem as to introduce a new element of uncertainty into that most uncertain factor, the world's gold supply?—I certainly attach importance to that—that we should not introduce another unknown variable into a world where there are quite enough unknowns already.

10,814. And a variable in that factor of the equation which is already the most unknown?—Just so.

10,815. I notice that in the last paragraph under the second head you deal with the question of the disturbance to the world's silver market, and the possible reaction on the silver interests of the United States of America. That is a matter on which perhaps we might wish to get evidence from special sources, but I notice you say: "The proposal really means that the silver which the United States were induced to supply to India at a time of great emergency is to be thrown back on to the market." Could you explain that? I am not sure I entirely follow how that comes about?—During the war, as you are probably aware, there was grave danger at one time of the Government of India having to declare the notes inconvertible owing to the drain on its silver supplies. It is safe to assert that they would have been unable to avoid inconvertibility if it had not been for the timely help that the Government of India were able to obtain from the Government of the United States through the good offices of His Majesty's Government here. The American Government held, as they still hold, large supplies of silver acquired under Acts of the American Legislature, and they were induced to break up a number of silver dollars and sell the bullion to India for the replenishment of the reserves and the supply of currency to the people of India. That Act was a very remarkable piece of legislation. It is referred to in a book recently published called "The Formative Period of the Federal Reserve System," by Governor Harding, from which it is perfectly clear the Americans took a special pride in this Act. It was passed with extraordinary expedition. Governor Harding says—I am quoting from his book—"In ordinary circumstances the passage of such a Bill would have required several years, if indeed it could have been put through at all. The Pittman Act was perhaps the most unique of the war measures, and its passage relieved a situation fraught with the greatest responsibilities." That is, as I say, a quotation from a book which I happen to have been reading lately. It brings out the fact that it was a piece of legislation in which America took particular pride. By it the Americans rightly considered they had rendered exceptional and signal service to Great Britain and India in the course of the war. When they passed that legislation, which Governor Harding says in ordinary times they might not have got through at all, they had to take account of their own silver interests. The Bill was treated with great secrecy and very few people knew about the motive which prompted it, because it was considered highly undesirable that the risks of inconvertibility in India should become the subject of public comment; but in order to get it through, the American Government had to agree to re-purchase, at the price of a dollar an ounce, American-mined silver of the quantity they were giving up for the use of India. They implemented that obligation after the war by purchasing American-mined silver at the price of a dollar an ounce to fill up the gap which had been caused in their silver reserves. During a considerable part of the time during which those purchases were in progress the world price of silver was substantially below that at which they had contracted to their American silver producers to re-purchase. In view of that history, I think it is clear that the idea of dealing a serious blow to the silver market would come with peculiarly ill grace from India, which had so much benefited from the action of the United States Government in the course of the war. My contention is that any appeal to the American Government for assistance in regard to the gold aspect of the case would be bound to raise consideration from them as to the bearing of the proposals on the American silver interests. I cannot say, of course, how that would appeal to the Americans or what action they would take or what proposals they might suggest, but I can quite conceive that the question of goodwill in respect of gold would be coupled with some request enabling the American Government to give compensation to their silver interests who would be prejudiced—as they obviously would be prejudiced—by such a scheme.

10,816. You mean the United States would be in this frame of mind: they would say, "We helped you when you were in a tight place with silver which you had from us, and now you seek to return that favour by slaughtering the silver market"?—I think that is the ordinary way in which one would look at it. You have to remember that in the United States the silver interests have for a very long time played a most important part in politics, and there has been a series of Acts, of which the Pittman Act was the last, of which the object was to give some support and protection to the American silver producing industry.

10,817. Have you given any thought in this connection to the reaction of the silver market and the price of silver upon copper and other base metals, lead and tin?—In so far as silver is produced in association with these other metals, one would assume that the output of silver would to that extent be

likely to continue, in spite of the decreased demand for it, and that those undertakings which were producing silver in association with other metals would find their profits affected. I suppose if conditions enabled them to do so—I do not know whether they would—they would try to recoup themselves as far as possible for their losses by raising the prices of the other metals, but it does not seem that there would be any particular ground for the expectation that the production of silver would be materially reduced, as it is produced to such a large extent as a by-product. I think in regard to this question of silver, of course, one has to take account very much of the large amount of silver held in the form of ornaments in India, and I myself attach importance also to the position in China. Not only would India be affected so far as her exports to China are concerned (and particularly in regard to raw cotton from Bombay, which is probably the most important of them), owing to the fact that as the Chinese exchange is a silver exchange the Chinese would find themselves in a less favourable position for importing, but it is also an important matter when a very large population such as that of China is subjected to a capital levy of perhaps as much as 25 per cent., for that is what might happen. All the savings of a large neighbouring population of an important power—China—would be subject to such a levy, in effect, and it is quite evident that our political relations with China would be bound to be affected by a thing of that kind. Seeing how disturbed the country is at the present moment, and the difficulty there is in maintaining decent political relations with China, I think the Foreign Office might have something to say on a question of policy which might have the effect of inflicting a capital levy throughout the length and breadth of that country.

10,818. Apart from political considerations, the material reaction you would apprehend from this fall in the value of silver, so far as China was concerned, would take the form of a diminution of the trade between India and China?—It would affect the power of China to buy from India.

10,819. There would be a diminution of the Chinese capacity to absorb Indian goods?—That is so. It would, of course, affect also and equally Chinese power of purchasing from other gold countries.

10,820. Passing now to the paragraph in which you deal with the cost of the scheme, your last words are: "Obviously, if the real assets are excessive under to-day's conditions and admit, either in the aggregate or as regards non-interest bearing amounts, of safe reduction, then the apparent saving from associating the reduction with the introduction of a gold circulation is to that extent illusory." I have gathered from your memorandum that your principal criticism of the estimates of the cost of the scheme as prepared by the Finance Department in India is that there is brought in against the cost a saving, but that saving is one which might be effected in any case according to the assumptions made, whether the gold circulation were adopted or not, and therefore that it cannot be regarded as specifically a reduction on the cost of the scheme for a gold circulation?—Yes. I think, for example, the metallic reserve to-day, on the figures on which we have been working, is obviously higher than is required for safety, and the fact that it is as high as it is to-day is merely a reflection of the presence of silver which returned in the last period of depression. That silver is likely in the ordinary way to go out and its place to be taken by interest bearing securities; as in fact, from the figures at the end of the memorandum, is already happening to some extent. So far as that is true it is clear you cannot regard the accidental fact that we have to-day too much silver as being itself any ground for assuming that under a gold currency you would make an important profit from getting rid of it.

10,821. We may put it in this way. Here is a potential saving to be made. If that potential saving is eaten up, as it were, in starting a gold circulation, that must be reckoned as part of the cost of introducing the gold circulation?—Certainly.

10,822. It is on that basis that you argue that the cost of introducing the gold circulation must be put as high as three crores?—Yes. I regard that as quite a low estimate.

10,823. The only question I would ask on the subject of the alleged defects of the pre-war system and your analysis of those defects is this. I understand your general observation with regard to these alleged defects, when they are considered in relation to the proposals of the Finance Department, is that you admit that to some extent there have been defects in the exchange standard system, but hold they are defects which can be remedied by the establishment of an exchange standard on a better basis; they are not inherent?—That is so. It is clearly the case, at any rate, with regard to the defects I have lettered C, D and E.

10,824. B is not really an issue between an exchange system and a full gold system, but an issue as between a gold exchange standard and a sterling exchange standard?—That would be so, yes.

10,825. As regards A, would it correctly interpret your view to say that the difficulties owing to the large silver content of the rupee must be inherent in any system which contemplates the continuance of a very large volume of silver rupees of the present fineness in circulation?—In theory that is so. Even in this country we experienced a similar difficulty during the War, which led the Government to reduce the fineness of our own subsidiary silver.

10,826. (*Sir Henry Strakosch.*) Under the first head of your Memorandum No. 3, you refer to the optional issue of gold coin in India; *i.e.*, to give gold coin upon occasion. Would you regard that as a part of a monetary system?—When I used that phrase I was thinking rather of a conceivable recurrence of the sort of emergency we had in the War, when there were difficulties in acquiring silver at a price consistent with the maintenance of the par of exchange. In such circumstances it might be of assistance to the Government to have a means of making payments in gold. I did not contemplate there would be any habitual offer of gold by the Government in payment. The word "occasion," as used there, really means in the event of some unusual emergency.

10,827. Just as the Government of India might, in certain circumstances, issue nickel coin for silver coin if the emergency arose?—Certainly.

10,828. In that sense?—Yes; the only difference being that the gold would be more likely to be acceptable to the recipient.

10,829. I follow that. You mentioned, in the course of the answers you gave to the Chairman, that the three forms of money in circulation in France worked satisfactorily; that no trouble was experienced in the working of that system. I wonder whether you appreciate that although France did not herself feel any immediate inconvenience, being a member of the Latin Union, the other members of that Union were caused serious inconvenience? They were caused serious inconvenience the moment danger loomed in the distance. Let me say this to make the point clear. When there was a threat of war in 1914, Switzerland was swamped with five-franc pieces, which were legal tender both in Switzerland and other countries of the Latin Union, and that caused grave inconvenience to Switzerland and ultimately France. Is not a similar situation likely to arise if you have three kinds of money, one convertible into the other, in circulation in India?—Your analogy suggests to me that the difficulty arose in the case you mention owing to the fact that more than one country was involved, and that one country was going to be a belligerent while the other was likely to remain neutral, so that by a transfer of coin which was legal tender in both countries from one to the other the person doing so felt he was likely to get better value in gold or a

better exchange, and was therefore protecting himself against depreciation. In the case of India that particular difficulty, which was due to the fact that both Switzerland and France were members of the Latin Union, is not likely to occur. I can only answer your question by referring to the period from 1898 to 1914, when this convertibility to which you refer was in force in India. It seemed to work satisfactorily then; Indian trade made very great progress, and the internal currency requirements of the country seemed to be met satisfactorily.

10,830. Is it a fact that the difficulty only arose in the case I mentioned because two countries were concerned? The difficulty really arose, I take it, from the desire of the French people who held five-franc pieces to convert them into gold?—Yes.

10,831. If you had in India a rupee coin which was convertible into gold, would not the effect of having such a coin in circulation be to make people convert it into gold in India when danger loomed in the distance?—The Government of India have not hitherto undertaken the obligation to give gold for silver in India, and I myself in these Memoranda have not contemplated that they should undertake that obligation. The obligation the Government of India has undertaken has been (with a degree of formality which may or may not be capable of improvement) to give gold exchange in this country for any full Indian legal tender.

10,832. That is, in practice, equivalent to gold?—In normal times it is equivalent to gold. I do not think any inconvenience arises from the fact that the note is convertible into silver and silver into notes. That particular obligation did not cause any inconvenience in the past; the silver reserve was always adequate to exchange notes for coin if required.

10,833. Would you in theory regard a system by which a paper note is convertible into another token coin which depends on the limitation of its issue for its value as desirable?—I do not regard that as an ideal system in itself at all; I only regard it as having been a good thing in the past, as it promoted the acceptability of the note. One has to remember that India has been used to the rupee for generations, and when it was a question of stimulating the use of the note, a very important factor was that the note should be readily convertible into the coin with which the people were familiar. From that point of view the peculiarity of the convertibility of a paper token into a silver token played an important part in bringing the Indian currency system to its present state and in promoting the note-using habit. It must be remembered the silver token in India occupies a rather exceptional position, because it has been for so long the standard coin of the country, the coin with which the great bulk of the transactions of the people of the country are carried out, and with which they have been familiar for so long. In that respect it possesses a different character from the silver token of most other countries.

10,834. Would you regard it as essential that the note should continue to be convertible into the other token coin—the rupee—if the note itself is convertible into gold, or gold exchange?—In that connection you have to deal with different kinds of people. I take it the prime interest of the people who are conversant with these questions and who are concerned with foreign exchange is that the local currency should be stable in foreign exchange. On the other hand, from the point of view of the ordinary mass of the people, who are not conversant with these things, but who are ignorant and untutored, I should think it is desirable that the note should be capable of conversion into local metallic currency; in other words, the internal convertibility of the note has an importance in India which does not arise at the present time with us in this country. I have not had an opportunity of mixing with the peasantry in India or knowing what view is likely to be held by officers and others who are familiar with the habits of the peasantry; it seems to me that kind of question can only be answered satisfactorily by people who are familiar with the habits of the untutored classes in the villages in India. My own limited experience suggests that the grant of free convertibility was very important in India, and Finance Members have always endeavoured to increase the popularity of the note by increasing the opportunities for conversion.

10,835. Another question with regard to the present price of silver. The Chairman has already stated that the present price of silver seems low, having regard to the general rise in prices, and you mentioned you did not think there was great likelihood of it rising unless the purchasing power of gold were to fall. I seem to recollect that in a report furnished by Messrs. Carpenter and Cullis —(which was an Appendix to the Babington Smith Report)—they forecasted an increasing demand for silver, and therefore suggested there was a likelihood of the price of silver rising, independently of the possible depreciation of gold. Could you enlighten us on that?—I should like to refresh my memory on that question, but my recollection of that report, which was written in 1919, was that they anticipated at that time that the price of silver was going to remain at an abnormally high level for the years after 1919; but no sooner was the ink on their report dry than the price of silver began to tumble, and the calculations they had been at great pains to make were falsified by the course of events. The world's production of silver seems to be pretty stable, judging from such statistics as I happen to have here. Before the war it was 230,000,000 fine ounces. The estimate supplied to me for this year is 230,000,000 fine ounces, and last year the figure was 236,000,000 fine ounces. I suppose, of course, there has been a reduction in the demand for silver. The absence of demand on the part of the Government of India for silver for coinage has been an important factor, and other countries have had to give up their silver coinage to a large extent and are only now reviving them. At the present moment the fact that the Government of India holds 80 to 90 crores of silver is an influence which, at least for the present period, militates against any substantial rise in silver prices.

10,836. But you would not dismiss the possibility of a rise, apart altogether from the depreciation of gold?—No, I could not be so rash as to dismiss it. Before the War people would have been inclined to discount the idea of silver ever going to 80d. with great confidence.

10,837. In one part of your Memorandum you say that if Indian currency had been rigidly linked to gold she might have fared worse than she did by allowing the exchange to rise, because prices would have kept stable?—I would rather say because the range of fluctuation was, *pro tanto*, reduced.

10,838. I am not quite sure my figures are correct, but I have figures before me showing that the wholesale price indices of the United States stood in January, 1920 (taking the 1913 figure as 100), at 248. They rose to 272, and finished up at the end of the year at 189. On the other hand, Indian prices—converted into gold, which you have to do for purposes of comparison—stood at 290 at the beginning of the year, rose to 293 and fell finally to 140. That shows far wider fluctuations than the United States' prices, and rather contradicts the statement you made that prices were relatively much more stable in India than in a gold using country like the United States?—We were concerned in this matter with the internal price level as measured in internal currency to which the people were habituated. 1920 was a year in which the rupee exchange was very high, and you have converted it into a gold rise proportionately high. If you look at it from the point of view of the conventional reckoning of prices in terms of rupees the result will, I think, be different.

10,839. I agree, but have not you got to measure the price fluctuations in gold?—That is certainly one important way of looking at it, but I think the other is also an important way of looking at it.

10,840. You want to suggest that, the lag being so great in the adjustment of internal prices they have not suffered so much?—Quite so.

10,841. But of course the external trade must have suffered very considerably?—Yes.

10,842. Because of the fact that their currency was not linked to gold, and the exchange was allowed to fluctuate?—That is so.

10,843. Under (D) of your Memorandum you refer in the second paragraph to contraction of the internal circulation, and you say: "It is part of accepted theory that contraction of the internal circulation should be the regular sequel of withdrawals of sterling from the reserves." Can you give us any details of the happenings in 1920 (I believe it was) when some £50,000,000 sterling of Reverse Councils were sold? To what extent was the rupee circulation actually contracted? Was it contracted by the equivalent of £50,000,000?—That is a question which I have been examining, and if the Commission wish it I could put in a short note on the question which might be of interest to them, showing the capacity of the Indian market to stand contraction, and also bringing out, in a rather different way from Mr. Denning's Memorandum, the amount of the contraction which occurred.

10,844. (*Chairman.*) We had a memorandum from Mr. Denning on the subject. If you have anything which could be usefully added to that it would be of interest?—I could tell you some points of interest now. I find that allowing for the reduction of the note issue in 1920 and the return of silver from the public, there was a contraction, if you take the first ten months of the year covering the period of the sale of reverses of something in the neighbourhood of Rs. 39 crores. Actually in that period the figures indicate that the contraction should have been about Rs. 51 crores. There would therefore be a deficiency from the desideratum of something like 12 crores, which was made up mainly by the issue of government debt created *ad hoc* to the reserve. What I would like to bring out is that there was a very considerable amount of contraction in the course of that year, though it fell short, by a figure which could be calculated in different ways, of what was desiderated by the correct working of currency theory. One goes on from that to examine how far this contraction of circulation affected the total cash and credit available in the country, and if you examine the deposits of the Presidency Banks, the Exchange banks and the principal Indian banks you find (though there is probably a certain amount of overlapping, because the other banks used to keep certain balances with the then Presidency Banks) that on December 31st, 1919, the deposits of all those banks were about 209 crores, while on December 31st, 1920, they had gone up to practically 223 crores, or an increase of 24 crores. One comes to the conclusion, therefore, that there was an increase in the credit available which, at any rate to a considerable extent, set off the reduction of cash withdrawn from the market by the sale of reverses and the subsequent locking up or destruction of currency. One then turns to the question of why it was not possible to effect a larger amount of contraction, and examines the discount rates of the Presidency Banks. In that year the Bank of Bengal's rate never rose beyond 7 per cent., which prevailed from February to June, and the rates of the Bank of Bombay and the Bank of Madras rose to 9 per cent. I will give the Commission these figures later on. One might argue at first sight that these rates, which later on fell as low as 5 per cent. in the case of the Banks of Bengal and Bombay, did not accord with a policy which was designed with a view to supporting the exchange through contraction of credit; but we are told by the Controller of Currency at the time that there was very considerable stringency in the bazaars, and the average rate of accommodation as calculated from the shroffs' discount rate for traders' bills, ranged from 8 to 11 per cent. Mr. Denning says the currency was not contracted to the full extent of the amount realised by the sale of reverse councils, as it was feared the shortage of money which might have thus been caused would seriously affect business generally. We must apply that remark, from which I see no reason to differ, to the attitude taken by the banks. They could not stiffen the rate more than they did without jeopardising an interest which was wider and bigger than the interest of exchange. The facts seem to show that we have to face a fundamental difficulty, as things are in India at present, in securing credit contraction on the scale and with the promptness which may be required to keep the ituation under control. I do not want to go now into the question of the various difficulties in 1919 and 1920, which were to some extent peculiar and exceptional, such as the Government deficit and the large issues of Treasury Bills, but one can arrive at certain conclusions which bear on what Sir Henry was saying—that if at any time we were to suspend remittances for Government on account of exchange weakness, we ought at once to bring those remittances to the account of reserves, so as to secure the necessary contraction, instead of dealing with them through the Treasury balances, which merely means that money withdrawn from the market in India goes to swell the Government deposits at the bank. It is obvious that in so far as you do that you merely improve the bank's cash position and do nothing to check the expansion of credit. I think that is a point which at some stage of this inquiry requires some examination. I am of opinion that past practice in this matter has not altogether accorded with what correct theory and practice require. The extent of the possible contraction at any time is not so much likely to be governed by the strength of the sterling reserves as by the capacity of trade and business to endure the strain. That is another lesson one learns from the events of 1920. The reserves were very large and a lot of currency could have been drawn off, but trade could not stand it.

10,845. It is a question of which is the cart and which is the horse, is it not?—Yes. The Central Bank, if it is charged with the duty of currency and credit control, will be working, owing to the undeveloped conditions of credit, under serious disadvantages as compared with Central Banks in countries with a highly developed credit organism. In particular I might mention one obstacle to sound working due to the existence of the stores of currency which have been referred to at various times, and which may always come out and fill up the gaps you are trying to create by currency contraction. Until you can really get a system under which people will give up the idea of holding rupees as a store of value in themselves, and will be content with a passbook, any control of credit in India is likely to be affected by the existence of those stores of value. Those are some of the lessons which I have derived from a study of the figures of 1920, and if you think it will be useful I will put in a short memorandum on this point, bringing them all together.

10,846. (*Chairman.*) I think it would be of great interest.

10,847. (*Sir Maneckji Dadabhoy.*) I would draw your attention to the last paragraph under (E), where you state: "Pre-war experience suggests that, if India must for long years to come have a full legal tender metallic circulation, the requirements of the country, including the desideratum of stability, can be met by an appropriate development of the gold exchange standard." In your Memorandum you have not indicated the lines of such appropriate development; may I ask you briefly to enlighten the Commission on the lines you think an appropriate development of the gold exchange standard should take?—Some of the points to which you refer will be found to be covered in some of the other Memoranda.

10,848. I noticed that?—The principal respect in which I think the pre-war system was defective lay in the fact that although the Government had accepted the obligation to give rupees without limit for gold or gold exchange at a fixed price, there was no corresponding obligation to give gold exchange without limit for rupees at the appropriate price. When the ordinary current of Indian trade was temporarily reversed, the habit was for the Government to come out with an offer of a limited and stated amount of Reverse Drafts, which might or might not be adequate to maintain the exchange. Until 1920 the amount so offered did in practice prove sufficient from time to time to take off the redundant currency from the market, but in 1920, though there were good reasons for the policy, the amounts offered were clearly not sufficient, and we had the peculiar experience of the Government selling drafts at one rate and the market rate of exchange being at a different rate. That is the situation—obviously a very undesirable one—which I think could be met and would not arise if the Government or the bank or whatever authority is concerned were to undertake to supply gold exchange without limit at the appropriate price.

10,849. The result of your argument is that the effectiveness of the gold exchange standard in actual practice depends on the action of the Secretary of State and the Government of India in selling or exchanging rupees for gold or sterling and sterling for rupees?—Yes, just as the gold standard depends in practice on the action of the authority charged with selling or buying gold at appropriate prices.

10,850. When the silver standard was abandoned in 1893, the fundamental basis of the gold exchange standard was the linking of the rupee to the sovereign at a fixed fraction of 15 to 1, was it not? —In 1893?

10,851-2. Yes.—That was the fundamental basis.

10,853. Then does it not logically follow that if it is impossible to maintain that ratio the basis of the gold exchange standard has failed in its most important aspect?—I would not adopt that conclusion, because the system seemed to work very satisfactorily from 1898 to 1914, and the conditions that upset the working of that system were such as shook the gold standard in countries where it was firmly established. I would ascribe the breakdown of the Indian exchange to a much more far-reaching cause than that; I would ascribe it to the fact that the great countries of the world, which were habitually free markets in gold, decided to bottle up their gold, with the result that countries dependent on them for gold found they could not get their supplies of it. That set in motion a number of consequences which drove the rupee away from its moorings.

10,854. Then you have no remedies to suggest to prevent a similar state of affairs happening again, and India being placed in the same position in the future?—I can only suggest measures which will prevent the whole world being drenched in blood again—the development of peace-loving organisations which, if they continue, should also prevent India suffering from the kind of danger to which you refer. The disaster to currency throughout the world was only a small disaster in comparison with the loss of life and of happiness caused by the Great War, and I think if the causes of these evils are removed the danger to the currency will probably be removed by the same process.

10,855. Then we can safely assume, from what you say, that the breakdown of the system did not originate in India or was not due to any war expenditure incurred by the Government of India?—I think, broadly speaking, that is true. The breakdown was due to world-wide causes.

10,856. Was not the main cause the acceptance of payments due to India in London in sterling, which could not be transmitted to India during the war period? Was not that the main cause of the breakdown of the exchange?—As I say, I think the main cause of the breakdown of the standard was that countries declined to part with their gold and therefore some other means of payment had to be invented—something other than the normal method. Moreover, under the circumstances of the war the opportunity of discharging a portion, at any rate, of India's favourable balance by means of commodities was very greatly diminished, and thus the strain was thrown more and more upon metals, the principal and most valuable one of which was not available, or was only available to a trifling extent, for the purpose of liquidating India's credit balance.

10,857. You have spoken about the difficulties in finding gold in your Memorandum. Is it not a fact that a form of internal token like rupees, not being exchangeable into gold, is a permanent cause of the hoarding of rupees in India and the unavailability of gold?—I do not regard it as being in any way necessary for the satisfactory working of a currency system that there should be gold metallic coin in circulation. I should not by any means regard that as essential. What appears to me to be necessary is that when there is a redundance of local currency, the Government or the authority charged with the duty should have the means and the will to withdraw the local currency to the extent required by the circumstances. That seems to me to be what is essential.

10,858. India, with her favourable trade balances and being a creditor country, is in a position to demand that the nature and form of her currency shall be what she wishes, is not that so?—She is normally in a position to determine the nature and means of payment in which her favourable balances shall be liquidated. Let me put it in this way: she is in a position to demand that her favourable balance should be liquidated in whatever form she wishes.

10,859. In determining that question, is it necessary for India to pay any attention to any outside economic disturbances which may take place, provided those disturbances are not of a nature or character to react on Indian policy?—It is hardly possible, seeing the important part that India plays in world trade and finance, that any changes which affect the world outside on a large scale should leave India unaffected. It is therefore not possible to attach any very precise meaning to the idea that India can create an upset outside and not herself feel the reactions of that upset. India plays such an important part in affairs that, if she upsets the commodity value of gold throughout the world, she cannot escape from the reactions herself. Therefore in this matter India, in considering her own interests, cannot ignore what happens elsewhere, because what happens elsewhere will affect her. I do not know if I have made my meaning clear.

10,860. Yes. You mean to indicate that India's interests necessitate the consideration of world-wide interests and the avoidance of world-wide economic disturbance, and you think that her policy should be formulated so as to be on the lines of least resistance?—I would rather put it in this way: India cannot afford to be indifferent to what happens outside, because of its reactions on herself. She can consider this question, therefore, entirely from the point of view of her own interests, but her own interests require that she should take account of reactions elsewhere.

10,861. But these reactions must be of such a nature as to affect her internal economy. Merely because these disturbances are going to affect, say, the United States of America, because the United States may have to part with gold if gold is demanded in India, and the better price which India is willing to pay for it may cause it automatically to move, would be no ground for India to take into consideration in arriving at a determination of the

problem?—You are assuming, I take it, that those movements would have no effect on India herself, and she need not bother about what happens outside in that case?

10,862. Yes.—I am not at all sure how far that is so nowadays. We have entered on a period of world co-operation, which is represented by the League of Nations and other organisations of that sort. I do not know how far to-day people would hold that a great country could properly pursue a purely individualist line. Such conduct belongs to a large extent to the state of things which prevailed before the war. Actually, of course, in this particular proposal you are yourself making, you have to remember it is always open to the country from which you expect to get your gold to put an embargo on gold exports. Such a country has therefore in its hands a weapon to the possible use of which you must not be blind.

10,863. But the main volume of our trade is with the United Kingdom. With the United States, as you are aware, the volume of our trade is comparatively small?—Yes.

10,864. How will that affect the situation?—This country cannot be indifferent to what happens in the United States. If, for example, the United States had to protect itself against a drain of gold for India by putting on a gold embargo, it might be taken as certain that this country would have to do likewise, under present conditions, because the gold reserves in this country would not be capable of meeting the Indian demand, assuming as we do now that America had declined to meet it. This country would therefore in such a case have to defend itself. I am only dealing now with hypotheses; you asked me to do so.

10,865. Yes. I see your point, but were not these considerations taken into account by the United Kingdom when it lately went back to the gold standard?—No. I think it may be safely said that the possibility of a large additional demand for gold for the purpose of promoting a gold circulation in India was not a consideration before the authorities when they decided to re-establish the gold standard in this country. I am not one of those who was in any way responsible for that decision, and you will have opportunities no doubt of discovering the facts from the people who were responsible, but my own impression is there was no such idea. I think that can be shown by looking at the dates on which these things were done. The first any of us heard of this project of a gold circulation was in connection with the labours of this Commission, whereas the decision to revert to the gold standard in this country was taken in April of last year. I infer from that that the idea of having to supply 100 crores of gold for a project of this kind was not before the authorities at that time.

10,866. According to your view then, India could never go in for the adoption of a full gold standard?—I think she has to travel a long way before that idea could be contemplated safely. I myself do not regard the idea of a gold coin in circulation as itself being a good thing. I think it is undesirable and it is out of accord with modern ideas that a country should impose on itself the sacrifice and expense of using as counters for business transactions the most expensive material, or very nearly the most expensive material the world knows of.

10,867. I do not quite follow you. I will put it in this way: Will you indicate the lines along which you think India might reach this goal?—The idea of gold currency in circulation?

10,868. Yes.—Are we talking now of a gold standard or gold currency in circulation?

10,869. A gold standard with gold currency in circulation.—I must preface my remarks by saying that I do not myself regard a gold currency in circulation as being an ideal to be aimed at. If India were unwise enough to want and were prepared to foot the bill for it, I should have said the method of procedure would be by the reduction of rupee coinage to the greatest possible extent, and probably by the cessation of rupee coinage and the reintroduction of the rupee note. The next step would be the promotion and development of banking facilities up and down the country so as to get back in the ordinary course of events the stores of rupees in the form of bank deposits. Then there would be the eventual minting and placing of gold in circulation. If it were to be done it would have to be done over a very prolonged period with a large amount of preparatory work. I am not prepared to forecast the length of time it would take, but I think it would be a very long time, and I think it would be an essential preliminary to any such step to encourage a gradual development of banking business. One should draw back the surplus currency so that there could be no question of any sudden demand for encashment. I do not think this is a thing which can be done in a flash. You will understand, I hope, that in saying this I am not advocating this step at all; I think it would be contrary to India's interests.

10,870. You are opposed to a gold standard for India?—I am opposed to any project which aims at making gold the only unlimited legal tender coin of India, and which involves the degradation of the rupee on the lines discussed in these various memoranda.

10,871. Let me pursue this inquiry from another point of view. You know that in India there are large hoards of gold?—Certainly.

10,872. Do you expect India's hidden stores of gold can be used profitably for the State unless there is some assurance to India of a gold currency?—I should hope so. I should look at the thing from the point of view of two classes of people. Real confidence in the currency system as it affects the ignorant and untutored masses depends on the facility of being able to obtain the silver coin to which they have been accustomed, and in which the people of India have confidence. I should hope that would go on in conjunction with the gradual development of banking business up and down the country so that eventually the currency which is held as a store of value would come back to the banks. That is the first consideration. The second consideration is this: I regard it as all important for the establishment of confidence that the purchasing power of the currency unit should remain stable. I speak of the purchasing power in terms of the commodities with which the ordinary Indian is concerned. Those are the two requirements to be met as regards Indian villagers. There is another class of people whose needs have to be considered and whose needs are different, and that is the class consisting of those engaged in the export trade and external finance. They obviously require that the currency which they use shall have a constant purchasing power internally and also a constant purchasing power of gold exchange. I should have said that if those desiderata were satisfied you had the essentials of a sound currency system in India, and there is no need for the introduction of a gold coin as the main medium of circulation.

10,873. You cannot really suggest any method of getting this hoarded gold out in India except with a gold currency?—I suggest that with the gradual development of banking business and the investing habit in India currency held as a store of value—and I include gold capable of being brought to the banks and turned to productive uses in the same class as currency held as a store of value—with the development of banking habits and confidence in the political administration of the country, such currency should come back, and India will then become a supplier of capital for its own needs on a much greater scale than ever before. I do not consider, however, there is any necessity to supply a gold coin for circulation for that purpose.

10,874. You must have noticed that since the War there has been a large importation of gold into India?—Certainly.

10,875. You must also be aware that a large quantity of silver rupees has now been substituted by gold as a hoard?—Gold has been substituted as a hoard for rupees, yes.

10,876. In very large quantities?—I have heard so.

10,877. You must also have heard that the desire to hoard gold in India at present and to substitute it for silver rupees is due to the idea that the silver rupee has depreciated and that it is not safe to hoard it?—That is not the reason I have been given for this fact.

10,878. It may not be your reasons, but I am giving you the reasons which prevail in India at present. Do you think with all these views now prevalent, and very strongly prevalent, it is likely that anything short of a full gold currency will meet the requirements of the country and be satisfactory to Indian aspirations?—I have given my reasons for thinking that a perfectly sound currency system, in accordance with modern ideas, could be established without having a gold unit in circulation, and I consider that the real secret of unlocking the private vaults of India lies not in providing a gold circulation, but in the development of sound banking habits. I suggest one of the reasons for the exceptional importation of gold in recent years has been not only the apparent cheapness of gold as compared with what India was accustomed to in pre-war times but also the very high cost of manufactured commodities in the principal countries from which India is in the habit of importing. As manufacturing costs are reduced—and they are being reduced in most countries—I should hope that India would see that her interests lay more in taking commodities of a useful character than in taking gold.

10,879. You made a very strong point in answer to the Chairman when discussing this gold currency question that the gold currency would replace the use of currency notes?—I suggested it was a danger that could not be overlooked or set aside. I cannot, of course, tell you to what extent it would occur, but I gave reasons in answer to the Chairman for holding that it might militate against the development of the note-using habit.

10,880. Will you please enlighten me as to this? When the Government issued sovereigns freely during the interregnum, was the use of notes diminished in any way?—It is difficult to say to what extent the issue of gold replaces another form of circulation. I have always been given to understand that the gold issued by the Government did not circulate to a great extent as currency and therefore it went largely, either to add to the stores of value held already or towards replacing stores of value previously held in another form. Apparently it has not circulated as currency to any material extent. I am referring, of course, to the gold issued by Government in the past. But different considerations would arise if the holder of the note were to be given the right to demand gold and if gold became the sole metallic full legal tender.

10,881. You have referred to the passing of the Pittman Act and the pride which the Americans took in the passing of this Act, and in reply to the Chairman you stated that this Act was very expeditiously passed and conferred a great benefit on India in allowing her to obtain the silver she required at the right and proper time. I would like to ask you a few questions in this connection. As regards the increased value of silver, you know that silver went up to as much as 78d. during the war. Was not that apparently due, at any rate, to the wrong policy adopted by the Government of India in preventing the large stocks of Indian silver being exported to European countries?—At the time when the silver crises became most acute in India the amount of silver held by the Government was extremely small and India at that time was a creditor country entitled to receive large payments from outside. This seems to make it difficult to understand how currency could be exported on any serious scale without its place being taken by some other form of currency. Gold was not available at the time; the only currency would have been Notes which, in the absence of silver, would have had to become inconvertible.

10,882. My point is that the price of silver went so high because silver could not be produced in the market in large quantities?—Yes.

10,883. If the embargo had not been placed on the export of silver, there would have been a great inducement to Indians who had hoarded silver in very large quantities to dislodge it and put it into the market, and so the price of silver would not have risen so much?—You have to consider in that case what India would have received in place of the silver she exported. Under your hypothesis India would have been a large exporter of silver. She was at that time a very large exporter of war materials of all kinds, for which there was great difficulty in finding a means of payment. Now you are postulating that in addition to that large quantity of war materials she might also have exported a large quantity of silver. I should be tempted in reply to ask what India would have received payment in? She could not be paid by the import of commodities, because production in the great countries was required for war purposes. She could not get gold. There would therefore have been no means in which she could have received payment, except in the form of inconvertible paper.

10,884. May I ask what England did in these circumstances when she got goods from America? She raised loans there. Why were not similar opportunities given to India? Did England give India the opportunity to receive payment in other ways?—I think this country had to adopt the policy of raising credits in America not because she thought it was a good thing but because she was forced to do it. She thereby acquired an obligation which will be a very serious obligation for future generations to discharge. I do not know that India would have found herself in a very satisfactory position if she had merely established a large debt from the world to her, the liquidation of which, as the countries concerned had placed an embargo on gold, would have taken quite a considerable and indeed an indefinite time. India would not, so far as I can see, have been in a position to obtain payment for these extra exports we are now contemplating except in the form of debts due, and in obtaining satisfaction for those debts she would have been largely at the mercy of those to whom she had given credit.

10,885. That may have been the situation as far as America is concerned, but do you think if England had floated a sterling loan in India for the payment of Indian exports India would not have taken up such a loan very largely?—At that time the people of India were providing loans on a quite unprecedented scale for the needs of the Indian Government, and for the discharge of their responsibilities in the common cause.

10,886. That strengthens my argument.—Those loans were all required for the purpose of financing the vast exports from India which India was already contributing to the common cause. I do not know that in addition to those large loans it would have been possible to raise further loans.

10,887. You do not think it would have been possible?—It is difficult to go back eight or nine years and express a positive opinion, but you have to consider the quite unprecedented scale on which loans were raised then.

10,888. Indian loans were floated without any limit at that time?—Rupee loans, yes.

10,889. And they were always well subscribed to?—Yes.

10,890. If India had been placed in a position to obtain for her exports payments in other ways—deferred payments by means of loans—does not it naturally follow India would have accepted that?—I think it is a matter of opinion. At that time the progress of the war was uncertain; it was unknown how long it would go on. I think it is quite

arguable whether at that time the people of India would have felt sufficient confidence in the future to have given large external credits in lieu of prompt payment. The Indians who were lending money under those conditions would have had to take the risk of a possible devaluation of sterling. They might at that time—in the middle of the war—have undertaken to receive a sterling I.O.U. in exchange for their exports, but in what form that sterling debt would have been ultimately liquidated would obviously be effected by the course and issue of the war. Let us take the case of France or Germany as an example. Supposing a portion of the French Colonial Empire had lent France vast sums and taken a franc debt in payment; they would not have felt particularly happy at the present time, when the value of their debt had been divided by five and the question of getting it back was under consideration.

10,891. Do not you think the people of India would certainly have accepted or preferred the credit of H.M. Government to that of the Government of India, even at that time?—As I say, it would have involved uncertainties. India was a creditor on a very large scale as it was. I feel much hesitation in saying she would have been prepared to have added another large debt to her claims.

10,892. Was not the sterling loan raised in England immediately after the war subscribed in a few hours, and also subscribed by Indians by telegraphic orders on their agents in this country?—I should have to refresh my memory on the methods by which sterling loans were raised during the latter part of the war. It was believed that the subscriptions were not derived in all cases from the genuine savings of the British people. I do not know how far those loans were subscribed by the help of bank credits and expansion. But it was generally believed that to a considerable extent this was the case.

10,893. There is one thing I should like to know in connection with the Pittman Act. When these dollars were released by the Government of the United States for the benefit of India, was there any understanding or condition binding India to any monetary policy?—None whatever.

10,894. Not even for the time being?—None whatever. No permanent monetary policy was at that time in contemplation.

10,895. Was it not a fact that at that time the United States of America had a redundancy of silver currency?—I do not know how far that is the way to look at it. I do not know whether there was a redundancy of silver currency in circulation, but they undoubtedly held very large supplies of silver. Whether that should be regarded as redundant or not is a matter of opinion.

10,896. Do not you think that in helping India they also helped themselves?—I think anyone who helped India to play her full part in the war was helping themselves as a fellow belligerent. We were all allies at the time, and no doubt the fact that America was concerned with us all in the victory made her take a favourable view of this project.

10,897. I fully appreciate that, but as I understand your contention it is that the United States, if we now adopt this gold standard policy, will say, "India has been ungrateful; we helped her during the war, and now, ten years later, she is going to put into the market 200 crores of rupees of silver and thus indirectly affect us." That is the point?—I think as acute business people and as politically minded people they are bound to realise the effect that such a project will have on an important national industry, and though the ordinary man in the street may look on it from the point of view of gratitude and reciprocity, the American Government will be more likely to look on it from the point of view of their political position. Governor Harding, in that little extract I read, said he doubted whether it would have been possible to get the Pittman Act through in ordinary times. Those considerations will become dominant again if the question is raised of selling vast amounts of silver in association with the gold circulation scheme, and whether or not the United States Legislature will permit the Government of the United States to be a party to a policy which is going to inflict a serious blow on an important national industry I do not know.

10,898. But is it really going to give a serious blow to the United States? Sir Basil Blackett's scheme extends over a period of ten years, and in ten years there will be a gradual dislodgement of the silver. There are world factors to be taken into account. Will it really affect the silver-producing countries? —I can only judge from the fact that in his own estimates 24d. is taken as a conjectural price of silver, as compared with the price of 30d. or so ruling to-day which, as was brought out in an earlier part of to-day's evidence, may itself represent a lower price than may be obtained at an early date if silver prices get into line with general commodity prices. I think a reduction of that sort, which is purely hypothetical and which might be greater, is likely to have a serious influence on the United States administration. I can only give you my opinion as it strikes me in view of my knowledge of the special history affecting the Pittman Act.

10,899. Will not China and other Eastern countries also absorb some part of this silver?—That, of course, is largely a matter of conjecture. No doubt silver would look cheap to them, but they would have seen its gold and commodity value decline under the influence of Indian sales, and their experience with the metal might well discourage them from taking any material additional supplies.

10,900. (*Mr. Preston.*) As a possible answer to the questions which Sir Maneckji Dadabhoy has been asking you with regard to the introduction of a gold standard with a gold currency, and his endeavour to obtain from you some expression of opinion as to a system which might meet his views, I should like to make a suggestion to you as being a possible answer to his enquiry. My first proposal would be that all further coinage of rupees should be stopped, and that the notes in future should be known as Gold Mohur Notes and should carry with them the right to claim gold for export purposes only. That would mean we should never again in the history of our system have any difficulties such as you have represented in producing contraction whenever it was necessary?—You will only have the difficulty resulting from the inability of the market in India to stand a contraction.

10,901. Let us leave that out of the question for the moment?—In so far as you had managed to reduce your rupee circulation to the absolute minimum required for carrying on the affairs of the country, and could rely on a return of gold from circulation to support exchange—and it is a matter of opinion whether it would come back—you would *pro tanto* have protection against the exchange. You contemplate that the gold notes would entitle the holder to receive gold for export only and you would have to be prepared in those conditions to deal with the practical question of limiting your exchange for export purposes only. I suppose you must arrange to give your note user the opportunity of getting some form of metal for internal purposes.

10,902. I will come to that shortly. Your present reserves would stand as they are?—The silver reserves?

10,903. Your paper currency gold reserves would not be altered?—Would the silver reserves remain?

10,904. I will come to that also. You have had difficulties in the past; as you have explained, the old system failed, or partially failed, at times. There was difficulty in 1920 in producing full contraction? —Yes.

10,905. That is why, to a great extent, the witnesses we have had before us in India have called the old system a mismanaged one from that one point of view. Obviously notes would only go into the currency offices to claim gold for export provided that we had got to export coin?—Yes.

10,906. So that from that point of view our contraction would be automatic as the market required it?—Yes.

10,907. On the other hand, we would limit the sale of Council Bills to the actual amount of home charges which can be taken for argument's sake as at the present moment round about £40,000,000 sterling?—That is a proposition rather difficult to apply in practice, because we do not go out of business on the 31st March, and one always has to look a little ahead. Limiting remittances to the home charges is to be construed in rather a broad sense, I take it: in other words, you would allow a certain amount of operations in advance in anticipation of home charges coming along; otherwise your operations would cease on the 31st March and you will get on to the Indian slack season and start the new year with all your home charges to be remitted; yet this would be the season when remittance operations from the point of view of the Indian taxpayer are not usually most profitable.

10,908. When the Finance Minister makes his statement he says that he contemplates that remittances on account of home charges will be at a certain round figure. No-one assumes for a moment that that is correct within £100,000 on an amount of 40 million pounds?—I think you will have to have a considerable margin. Heavy payments at the beginning of the year have to be provided for in advance. I think an interest payment on the sterling debt is due at the beginning of April.

10,909. The Finance Minister can estimate fairly closely what his home requirements are going to be, can he not? Let us take that as a hypothetical case.—There are other conditions which must not be overlooked. It is to the advantage of India to avoid external borrowing if she can, and therefore if it is possible to draw from India funds for capital purposes instead of obtaining money by sterling borrowing it is to India's advantage to do so. We always budget in practice to close the end of the year with a minimum working balance. We have in practice a policy which does not involve drawing more from India than is required for home charges in the broadest sense, but in particular periods there are considerable sums in hand either for capital purposes or in advance for requirements of the next year. We do not aim at keeping here permanent balances in excess of what is required. Budget estimates are always framed to bring down balances to a minimum, because the Government of India finds it desirable to avoid debts in this country as far as possible.

10,910. In the discussions which have taken place in other Commissions and whenever the matter is dealt with, either outside or in the papers, we are all accustomed to speak of the home charges amounting to round about a given sum: is not that so?—It is so, but I think there is very often a considerable inaccuracy and looseness outside which does not take into account means of utilising surplus funds which may happen to be drawn from India owing to favourable circumstances in the course of the year.

10,911. During last year the home requirements were round about 40 million sterling? Is that correct?—Including capital charges they were about that.

10,912. The sales of additional councils have been provided by the Government of India as against currency? The gold funds here have been invested in securities on this side?—Yes.

10,913. This amounts at the present day to between 9 and 10 crores of rupees?—I think it is 9.

10,914. Instead of that excess amount having been taken by you here and invested in securities, let us assume that we ship that amount in actual gold to India, as has been done in previous years?—Yes.

10,915. Over a period of years?—Yes.

10,916. And until the gold so shipped shall have accumulated to the amount of 100 million pounds sterling?—Yes.

10,917. (*Chairman.*) That raises a new topic which will probably take some little time to discuss. I think perhaps we had better adjourn.

(*The witness withdrew.*)

# THIRTIETH DAY.

## Wednesday, March 3rd, 1926.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Mr. William Edward Preston.

Mr. G.H. Baxter.
Mr. A. Ayangar. } (*Secretaries*).

Mr. Cecil H. Kisch, C.B., re-called and further examined.

10,918. (*Mr. Kisch.*) Before you start, may I just refer to one point you asked me to look into last Monday. The calculation giving 4½ per cent. as the yield on the gold standard reserve was made on the

figures for the year ended 30th September, 1925. The receipts for the year were:—

| | |
|---|---|
| Dividends and discounts ... ... | £1,771,109 |
| Accrued Interest on Bonds sold ... | 10,676 |
| | £1,781,785 |
| | *Per cent.* |
| i.e., on a Reserve of £40 million ... ... | 4.45 |
| The figures for the half-year ended 30th September, 1925, show even a better result, the Interest receipts being £928,209 or ... ... ... ... ... | 4.64 |

The estimates for 1925-26 assume a total interest receipt from the reserve of just over £1,800,000, practically 4½ per cent.

10,919. (*Chairman.*) What exactly does that cover, so far as the securities included are concerned?—We varied the holding some time ago.

10,920. But to what does it apply?—To the £40,000,000 sterling which is held in the gold standard reserve, of which the form of investment can be put before you if you would like to have a statement showing the exact form of holding.

10,921. That is the average rate of interest during the period specified on all securities held in the gold standard reserve?—Yes, that is to say discounts and interest. That was, of course, only one item of the three factors in the cost question in regard to which I suggested to you that the figures put before you in India were unsatisfactory. There was first the point that those estimates assumed for the purposes of comparison that the present excess holding of inert metal was permanent. There can be no doubt that they did assume that. Secondly, they assumed that the rate of interest was 3 per cent., whereas I have given you the figures taken from our accounts showing that it is actually 4½ per cent. at the present time. I only took 4 per cent. in my calculation, allowing for some decline in interest rates. The third item to which some regard must be paid is the effect on the future coinage of silver rupees if the rupee is exploded.

10,922. The loss of profits on coinage?—The loss of profits on coinage, because the presumption is that if the rupee is going to be no longer unlimited legal tender, and there is to be a change over from a silver circulation to a gold circulation as far as possible, the future profits from the coinage must be reduced. The actual amount of reduction I took was very small, and hardly affects the item of charge. For that reason I think the estimate of cost I provided errs, if anything, on the side of moderation.

10,923. To complete your picture, would you feel it necessary to refer to the possible substitution of note circulation by gold circulation, leading to an increase in the amount of gold required above the estimate?—Certainly. I provided nothing in my estimate for a possible turnover from notes to gold, which would clearly have an adverse effect on the cost of the scheme for promoting gold currency if it took place. I did not provide for any such turnover, but in so far as there was such a turnover there would be a decrease in the investments held in the currency note reserve, and therefore a further element of cost to be faced. I have not included anything in my estimate for that, because it was a hypothesis, and I could not give you any figure. I could only state that there was an indefinite, and incalculable amount which would vary according to the judgment of different people, and which could legitimately be added to the cost.

10,924. Have you also given some consideration to the question of whether a sufficient amount has been allowed for the possible replacement of silver in active circulation by gold?—In so far as that would postpone fresh issues of silver, do you mean?

10,925. Yes?—In so far as that would postpone fresh issues of silver, that would mean retardation of the accrual of coinage profits. The other point I wished to mention is that I have sent round to the Members of the Commission through the Secretary a copy of a memorandum* dealing with the events of 1920, somewhat on the lines of the sketch I gave at our last meeting on Monday. It has probably not yet been distributed.

10,926. (*Chairman.*) It has reached us this morning.

10,927. (*Mr. Preston.*) In order to refresh the memory of the Commissioners, may I just say at the outset that I was dealing, when we adjourned last Monday, with a suggested scheme for a gold standard leading to a gold currency, and my object in submitting that to the witness for his consideration was to deal with questions which had been addressed to him by Sir Maneckji Dadabhoy, and his replies to those questions. I had already mentioned one or two points, but I think perhaps it would not be out of place if I were to recapitulate briefly what I have already dealt with. My first postulate was that we should (1) stop all further coinage of rupees, and (2) future issues of notes should be gold mohur notes, convertible into gold for export purposes only, such notes to be fully convertible into rupees. One of the great objections which has been raised to the old gold exchange standard as practised in India prior to the war was that it was capable of mismanagement, and one of the greatest detractions from that system was that it did not provide for a complete contraction of currency. If under a new scheme a gold mohur note was issued, convertible fully into gold for export purposes only, would that, in your opinion, absolutely remove any contention that contraction of currency would no longer be possible?—In so far as there was strict conformity with the theory that on the tender of notes in exchange for gold for export the notes were destroyed, and the gold exported, what you say would apply, but you must realise that under the scheme you have outlined there will still be a reserve known as the gold standard reserve, and that therefore it would be open to the authorities, if they deemed it necesssary to do so, to borrow from the gold standard reserve, and in that way maintain the note circulation. For example, the resources held in the gold standard reserve could be transferred to the paper currency reserve, and thus it would be possible for the authorities to maintain the currency at the same level. I must therefore answer that question by saying that in itself it does not provide complete security on paper; there would still be something in the discretion of the authorities. I am not implying that that is necessarily a criticism of the scheme, because I believe myself that on the gold standard as worked in most up-to-date countries, the central banking authorities have various means for relieving an excessive stringency that may be caused by the export of gold. For example, it is open to the Bank to buy securities, and thus to increase the funds at the disposal of the market.

10,928. That is exactly what my point was. The authorities have power to do it, but they never exercise that power. Under this scheme the holder of a gold mohur note, if exchange fell and had got to export point, would have no authority who could gainsay him his right to tender notes, and ask for gold for export purposes. There would be no question of an authority utilising its discretion?—There would be no question of an authority utilising its discretion in the sense of refusing gold to the tenderer of the note, but my point was that there were other means of maintaining the note circulation.

10,929. Just so. I add to what I have already said that such notes would be fully convertible into rupees, i.e., there is no question at all about altering the tender of rupees in any way. Then I add two sections which are really used more for explanatory purposes than for any other reason, and which I have called (*a*) and (*b*). (*a*) is: "For the purposes of this section it shall be understood that 'export' means gold shipped from Calcutta and Bombay to London." That is important, because the point has been raised as to what really does constitute export. I do not know that we need discuss that very much;

* See Appendix 74.

it is not a material point?—It is a question of practical possibility as to whether you can ensure that gold issued in this way is genuinely exported to the destination contemplated. It is a practical question of which you have heard in India.

10,930. (*Chairman.*) It might assist the witness if we were to put these matters before him in the form of questions to which he can apply his mind.

10,931. (*Mr. Preston.*) Certainly. My next point is: "No shipment shall be for a less amount than 10,000 gold mohurs"—not a lakh—"by any person or firm or bank whatever." Would you kindly favour us with your opinion on that point?—I gather that is part of the precautions you contemplate taking with a view to ensuring that the gold is for *bone fide* export purposes, on much the same lines as the Bank of England had made its regulation not to supply less than 400-oz. bars. It is a counterpart of that.

10,932. It is a counterpart of that. The limitation in England to-day is this. The Bank of England gives sovereigns for export, but they box them themselves, and practically ship them themselves, and a bill of lading is given to the buyer of the sovereigns. In the case of bar gold they allow any individual to go to the bank and to ship the gold himself, obviously because there would be no advantage in holding up several lakhs of ounces of gold?—In this country it is the case now that you can get 400 oz. bars for internal use from the bank, a thing you do not contemplate in this scheme. I shall have a word to say on your first point later on; I must not be taken to assent to all these propositions as you have read them out, because I have not had any questions upon them, but I should like to refer to question 1 later on.

10,933. (*Chairman.*) Mr. Preston has been good enough to supply me with a copy of his questions, but I think it would tend to save the time of the Commission if each member had a copy before him. Several of the questions—and in particular Nos. 4, 9, 11 and 12—appear to me to be such as would come more appropriately after Mr. Kisch has developed his views on remittance in general.

10,934. (*Mr. Preston.*) That is for your discretion entirely, Sir.

10,935. (*Chairman.*) Would it be any inconvenience to you to postpone going into this thoroughly until we have all had the questions before us?

10,936. (*Mr. Preston.*) Not at all; I will postpone them with the greatest of pleasure. It will give the witness more time to consider the subject.

10,937. (*Mr. Kisch.*) Mr. Preston kindly gave me a copy of his memorandum yesterday, and I have had a little time to consider it, but I am entirely at the disposal of the Commission.

10,938. (*Chairman.*) All these points which Mr. Preston wishes to raise will come with even greater advantage after Mr. Kisch has developed his views from Memorandum No. 4, in which he deals with the transfer of the note issue, and by then we might all be able to have a copy of these questions before us. It will save a great deal of time if we postpone them now.

10,939. (*Mr. Preston.*) By all means.

10,940. (*Sir Purshotamdas Thakurdas.*) In the first paragraph of your Memorandum No. 3 you say: "The introduction of gold as the sole metallic unlimited legal tender, and the conversion of the rupee into a limited legal tender, involve a complete departure from established custom." Is this custom to which you there refer based on the result of any inquiry by any Commission, or is it due to action taken by the executive in actual contravention of the unanimous Report of the Fowler Committee?—Since the Fowler Commitee there have been two Commissions which have investigated the subject of the rupee exchange—the Chamberlain Commission of 1914 and the Babington-Smith Committee of 1919. Though I am aware that the Fowler Committee did lean towards a gold circulation, I do not think that at that time the merits of a gold standard without a gold circulation as compared with a gold standard with one were appreciated to the extent that they are to-day.

10,941. My question was this: Is that custom based on something which was arrived at or recommended by a Committee after full inquiry, or on something in actual contravention of what was unanimously agreed on by a Committee which thoroughly examined the currency system of India?—I think the policy which has been in force conforms very closely to the recommendations of the Chamberlain Commission, which specifically went into the question.

10,942. Is it not in absolute contravention of the recommendations of the Fowler Committee?—How far the Chamberlain Commission did not agree with the Fowler Committee on this point is a matter of opinion.

10,943. The custom to which you are referring is absolutely in contravention of the recommendations of the Fowler Committee?—As I say, I think the extent to which that is so is a matter of opinion, but the policy in force absolutely conforms to the recommendations of a Royal Commission which dealt with the matter subsequent to the Fowler Committee.

10,944. (*Sir Purshotamdas Thakurdas.*) I suggest it is not a question of opinion at all, but a question of fact. The Fowler Committee, after a very full inquiry, recommended something which was not officially rejected by the Government of India, but the Executive in practice evolved a different system. The custom referred to is in contravention of what was unanimously recommended by the Fowler Committee. I would like a categorical reply to this point.

10,945. (*Chairman.*) I do not think the witness can say more than that it is a matter of opinion.

10,946. (*Sir Purshotamdas Thakurdas.*) (To the witness). Is it a matter of opinion?

10,947. (*Chairman.*) That is Mr. Kisch's answer.

10,948. (*Mr. Kisch.*) I have said that the Fowler Committee exhibited a leaning towards gold, but whatever their view may have been at the time, the particular question you are now raising was not actively canvassed before them, and a subsequent Royal Commission and a subsequent Committee took a different view on that point, and definitely did not lean towards gold.

10,949. (*Sir Purshotamdas Thakurdas.*) All the Chamberlain Commission did was to say that what was in vogue had till then been found not to be unsuitable to India; they did not reject the Fowler Committee's recommendations, did they?—The Chamberlain Commission spoke at considerable length and with much emphasis on the subject of the undesirability of promoting a gold circulation in India. I have not their report by me, but if it were produced I should have much pleasure in calling attention to the relevant paragraphs.*

10,950. Did the Chamberlain Commission reject the gold standard?—Most emphatically not.

10,951. What is the conclusion of your memorandum with regard to gold standard? You draw three conclusions. Two of them relate to gold currency, and in the third you say: "That the arguments directed against the gold exchange standard do not justify the rejection of the general currency scheme which served India well before the war." May I ask what your conclusion is with regard to gold standard for India hereafter?—My conclusion with regard to a gold standard is that a thoroughly efficient gold standard is capable of being introduced into India without the promotion of a gold coin in circulation, and without the degradation of the rupee to a limited legal tender.

10,952. And you recommend the introduction of a thoroughly efficient gold standard?—Absolutely.

10,953. You also refer in your memorandum to an ideal system for India, and you put the word "ideal" in inverted commas. Do you regard the

* See paras. 56 to 58.

system you refer to there as ideal?—I said in reply to the Chairman that I regard the system as ideal if the main media used for the transaction of business were in the form of tokens, and preferably paper tokens, and there was an absolute guarantee of the availability of gold exchange at the proper parity; in other words, if the local currency was secured against any depreciation in the international exchange market.

10,954. Then the ideal mentioned by Mr. Denning is your ideal too?—Yes, I accept that, speaking generally.

10,955. Then you say: "India has already the beginnings of the 'ideal' system in (i) the accepted use of a token coin instead of a full value coin." Do you look on that as a virtue of the system or as a vice?—In so far as India is using for its medium of circulation something other than full value coins—in so far as it is using a silver token for the purposes of internal circulation—I regard that as a good point, and the rupee from this point of view is a silver token, and the note a paper token.

10,956. It is certainly more expensive than a paper token, is it not?—Undoubtedly.

10,957. And it is one which is likely to land the Government of India in great difficulties in certain circumstances, such as if silver went up beyond the point at which the rupee is a token coin?—That is a risk which applies in theory to any kind of silver token. It happened in this country, for example, during the latter part of the war.

10,958. It is a risk from which the paper token is absolutely free?—Even that cannot be agreed to without qualification. I understand that after the war, when the depreciation of currency on the Continent went so far, it was cheaper to use paper tokens to label brands of beer than to print labels. The risk, of course, is not a material one, and can obviously be neglected for practical purposes.

10,959. The risk in the case of silver is greater than the risk in the case of paper?—Undoubtedly; there can be no comparison between them.

10,960. In the last sentence of that paragraph you say: "The true wisdom seems to be to continue on the lines on which such remarkable progress has already been made." In spite of the handicap that a silver token is much more costly, and gives rise to more risks than a paper token, you consider that to be true wisdom?—Yes, because I think that to introduce a full value gold coin is a positively retrograde step, and is a great deal more expensive than the silver token, although the silver token is relatively expensive when compared with the paper token.

10,961. Your idea would be to get eventually to the final ideal of the paper token, and any scheme tending in that direction should be welcomed?—I think that is an ideal to be aimed at in the future.

10,962. Therefore, true wisdom would not be to continue a silver token, but to aim at something which would bring us to the ultimate ideal of a paper token being popular and acceptable to the people?—Yes, but it depends upon the method by which you approach this ideal, and I have ventured to suggest that to introduce a full value gold coin is taking a step in the wrong direction.

10,963. If there is any other method by which you can reach the final ideal of a paper token being popular, it is worth serious consideration?—I have not yet seen any reason to believe that the introduction of a full value gold coin will take one in the slightest degree in that direction. As far as I can see, it might even lead you away from it.

10,964. If the introduction of a full value gold coin can be an intermediate step to the final ideal, it is worth considering?—There is a hypothesis in that question which I do not accept.

10,965. You do not accept the hypothesis at all?—I do not accept the hypothesis that it is going to lead to the final ideal.

10,966. Just bear with me a second. Supposing that was so, that it would lead to the ideal, would you consider it worth a trial?—I should have to consider the degree of probability, and all the arguments involved.

10,967. In order to accept the hypothesis?—Yes.

10,968. If after that you did agree to the hypothesis, you would consider that to be the path of true wisdom, would you not? If you were convinced, after discussion, that it was only an intermediate step, you would not consider it to be a path of folly or rashness?—If I were honestly convinced, and I could form some idea of the lapse of time required, and the cost and so on, I should agree.

10,967. Exactly. If after all that, you were satisfied that that was an intermediate step, you would not consider it to be either rash or undesirable?—Not if I was fully convinced of it and could appraise the cost and so on, and the risks.

10,970. In the next paragraph you say: "These remarks do not imply that gold coinage should not be undertaken in India if the people of India desire that the gold which they import should be stamped in small units." How could you ascertain that desire on the part of the people of India?—One method of establishing it would be to pay regard to the opinion of representative spokesmen in India who were capable of expressing the views of the Indian holders of gold. Another method of doing it would be by experiment. If you opened a mint with the offer to stamp gold held by Indians, or gold of which they might become the holders, into round units, and they brought the gold to you for the purpose, you would be in a position to say the thing was wanted, while if you found it was not wanted you could close down the Mint.

10,971. From what you have heard about the state of public feeling in India, you think that is sufficient for the purpose of concluding that the people of India do desire this?—There has been in the past at various times a distinct demand for a gold Mint, and I think I am right in saying that the last two Commissions acquiesced in the idea that such a Mint might be opened.

10,972. I am now thinking more of the period after the last two Commissions—since 1920. From what you have heard from the people of India in this connection you think that is sufficient for the purpose of your conclusion, that the people of India do desire this, or do you think the demand has not been strong enough or convincing enough to enable you to say that they so desire it?—I have not seen any particular reason for differing from the conclusion arrived at by those two Commissions. I think the ideas prevalent in India now, so far as I can understand them, are not very materially different in the main from what they were before so far as this question is concerned.

10,973. Are they stronger in that direction?—Undoubtedly since this Commission has been appointed there have been wider proposals advocated than have ever been advocated before.

10,974. You then go on to say: "The gold which they import should be stamped in small units." By "small units" I take it you mean small coins?—Yes. I was distinguishing that from the 400 oz. bars.

10,975. What is the idea of having small coins?—I think the idea was that some people might prefer to keep their gold in that form, and also I thought if the idea of a gold coin was accepted and embodied in Indian theory, though the Government would not be under any obligation to pay gold in exchange for silver or notes, if that idea was once accepted it might have some virtue in meeting the demand that there should be gold coins, and possibly also it might be helpful in the case of an emergency arising—an emergency such as you contemplated, when there might be an abnormal strain on silver. I do not think myself that that is a very likely contingency, but it is worth mentioning in this connection.

10,976. I am trying to find out what the small units are to be. Are you thinking of sovereigns

or smaller coins than that?—On the whole, I should think if exchange is stabilised at roughly about the present ruling figure, the sovereign would not be altogether a convenient unit for India, owing to the fact that it is not expressible in an integral number of rupees.

10,977. (*Chairman.*) You say that in your fourth memorandum?—Yes. I think on the whole it would be better to have a unit expressible in an integral number of rupees. I do not know what figure would be preferred, but that is not a very vital point—whether it should be 15 or 20 rupees. I think that is a relatively subsidiary point.

10,978. (*Sir Purshotamdas Thakurdas.*) Later on you say that they should be available "on occasion" as legal tender. What is the significance of the words "on occasion"?—I endeavoured to explain that a moment ago. There is a possibility that there may be again some abnormal stress on silver, in which case it would be worth while to have already recognised the availability of gold coin for the purposes of payment. What I really meant by those words "on occasion" was in the case of exceptional emergency.

10,979. You would not have them normally in circulation?—They would be legal tender, but there would be no obligation on the Government to issue them in exchange for paper or silver. They would be legal tender, just as the sovereign was legal tender in the old days, and they might circulate to a slight extent, but there would be no obligation on the part of the Government to issue them.

10,980. (*Chairman.*) They would always be legal tender, but they would only be used to any extent upon occasion?—They would only be issued by Government when special circumstances made it difficult or inexpedient to issue silver, as in fact gold coins were issued at various times during the war.

10,981. It is not that they would be occasionally legal tender, but that they would be occasionally available?—Yes. In the event of there being a strain on silver, as occurred during the latter part of the war, it would be open to the Government to make payments in gold coin if they so wished. It would be open to them, if it suited them, and if it was inconvenient for them to make payments in silver, to make payments in gold coin.

10,982. (*Sir Purshotamdas Thakurdas.*) I should think if gold coin was legal tender there never can be any objection to Government's issuing it officially whenever it suits them, as long as there is no compulsion upon Government to give gold coin in exchange for silver or paper. You say the gold coin should be available "on occasion" as legal tender?—I mean that normally speaking the Government would not issue gold coin, but if you recognise the existence of gold coin as legal tender the Government would have that further means of making payments if at any time it was impossible or inconvenient to make payments in silver.

10,983. You also say, "There is all the difference between the admission of gold as legal tender but without an obligation to issue it except in return for bullion, and forcing the people away from a currency to which they are accustomed, and pressing upon them a new currency of a more costly character." In what part of the memorandum, either of Sir Basil Blackett or of Mr. Denning, do you get that impression?—I think any scheme which aims at degrading the rupee is likely to promote great nervousness among rupee-using people, and I can imagine no scheme which more rightly deserves such language as I have used there than a scheme which discredits the rupee, and which is likely to make people afraid of the rupee. As a result they would have recourse to some other coin, which, in the circumstances, would be the gold coin.

10,984. That is why you think that scheme presses gold coinage on the people of India?—I think any scheme which blows up the rupee deserves to be strongly characterised from that point of view.

10,985. With regard to your suggestion that gold coins should be minted, and should be legal tender which may be used by the Government under certain circumstances, that has been styled by some witnesses before the Commission as camouflage. Do you agree with that description of it?—I do not know that I should use the word "camouflage." Camouflage is something which pretends to be something which it is not. This does not pretend to be anything which it is not. It may be, as I suggested to the Chairman, an excrescence or a superfluity, but I would not apply to it the word "camouflage."

10,986. Would you call it an embroidery of the system, without being of any advantage to India?—I would call it an excrescence, but I can imagine certain circumstances when it might be of some advantage, as in the case if there was a silver emergency. In such a case it might be a positive advantage to make payments in gold. It is not inconceivable that circumstances might occur in which this right to pay in gold might be useful. It is improbable, but it is not impossible.

10,987. What would you say to this:—"If you come to the conclusion that for one reason or another, the immediate or the early introduction of the gold standard is not possible, I would suggest that the proper course is to tell India so, explain the reasons why it is not possible and make an effort then to get immediately on to the ideal system, namely, the international exchange standard. I do not see why if you are going to give India the international exchange system, you should try to disguise that fact by putting gold into circulation optionally. I do not think camouflaging is the way to inspire confidence." You think it is not necessary to have a gold currency, but you wish to tell the people they can have a gold coin if they like. Is it not a wasteful process?—I do not, as I say, attach great importance to it. I regard the gold mint as an excrescence, and I do not think it has a great deal to recommend it, but it is not inconceivable that there may be conditions in which it may be useful. I do not think that this particular privilege in any way hinders the advance towards the ideal system, because it does not impose on the Government the obligation to issue gold, nor does it give the token-using public the right to demand gold, nor does it in any way discredit the rupee. I do not think, therefore, that it in any way impairs the march towards the ideal system.

10,988. You are opposed to gold currency because it is costly and wasteful?—Very largely on those grounds, and, of course, on account of the broader consequences which India might be involved in if it were to embark on a scheme of this kind.

10,989. Yet you would allow the people to resort to gold currency under certain restrictions? What is the utility of a thing like that, except to make the people believe they have got something which you really do not mean to give them?—At the present moment Indians hold imported gold, and hold it in large quantities. If they wish to hold their gold in a form which would make it legal tender for payment, this method would enable them to do so, but I am not promoting its use as a currency. As I have said several times, I regard this element as an excrescence. If India does not wish to have this right of turning bar gold into gold coin, which, in the circumstances, I imagine would not circulate to any great extent—I accept Mr. Denning's remarks on that point—I should be perfectly willing to drop that particular point. I have only suggested it for certain reasons, and I have stated the reasons why I think it may be useful to Government in an emergency. I also felt to some extent that it would be in accordance with what other Commissions, after investigation, have considered might be allowed without risk or danger.

10,990. Any such proposal is liable to lead to grave misunderstandings as to the use the people of India can make of gold currency. If gold coin is not available from the Government on demand, it may disappear as soon as Government gives out a few coins, and the conclusion the authorities may draw from that is that gold coin will go into hoards if it becomes legal tender. Why expose the people of India to this misunderstanding?—Either adopt one policy or the other?—I think there is a good deal of force in what you say, but whether the person who stores gold as a store of value stores it in rectangular or circular form seems to me a comparatively minor point.

10,991. You go on to say: "It seems retrograde to propose for India a gold circulation which is now regarded as obsolescent in Europe." Which are the countries in Europe which have gold currency as legal tender, but which have not gold currency in actual circulation simply because they cannot afford it?—I take it that that may be put the other way round. I cannot recall at the moment any important European country where gold is in active circulation. That, however, is a fact on which, if I am incorrect, perhaps some member of the Commission who knows more about it will correct me.

10,992. That was not exactly my question. Can you name to me the countries in Europe where by statute gold currency is allowed, but gold currency does not actually circulate because the countries cannot afford it?—In this country gold currency is a legal tender, and also in France. But statutory measures have been taken which effectively preclude gold circulation at the present time in this country. In France the position of the exchange obviously excludes the possibility of a gold circulation.

10,993. (*Chairman*.) It is legal tender?—It is legal tender, and I suppose the old German 20 reichsmark is still legal tender in Germany. I take it in Spain gold cannot circulate as currency because of the position of the exchange, but I have not direct knowledge of that country. Obviously Italy cannot have gold coin in circulation.

10,994. (*Sir Purshotamdas Thakurdas*.) Gold currency is allowed under the Statute there?—As far as I know.

10,995. South Africa has gold currency?—South Africa has gold currency, and I understand sovereigns circulate in that country.

10,996. Switzerland has it?—Switzerland has a gold coin as legal tender. I have not been to Switzerland lately, but my recollection of it in the old days was that one did not see gold coins to any extent. I do not know if one sees them at all now.

10,997. (*Sir Henry Strakosch*.) They did attempt to put gold into circulation in Switzerland, but that attempt failed. The gold came back very quickly. You have practically only notes and silver coins in circulation there now.

10,998. (*Sir Purshotamdas Thakurdas*.) I had some investigation made into the point, and my results show that gold coin was in circulation in Switzerland, preparatory to the convertibility of notes into gold coin.

10,999. (*Sir Henry Strakosch*.) They are convertible to-day.

11,000. (*Sir Purshotamdas Thakurdas*.) That goes a little further. In view of this, would you say the scheme is now regarded as obsolescent in Europe, or would you say that it is not in force in countries which cannot afford it?—I would rather say it is obsolescent. I look to the Genoa Conference as the guiding source of up-to-date currency theory and practice, and they undoubtedly contemplated that the use of gold should be economised, and that gold should *not* be adopted as a circulating medium. I think the whole trend of the Genoa Conference was to regard the active circulation of gold coin as obsolescent.

11,001. Various countries have not followed this up by making the necessary change in their statutes. What guarantee is there that they will not put gold into circulation again as soon as they can get a sufficient amount of gold in their vaults?—It is true the United Kingdom has not demonetised the sovereign, but it has taken other steps which in practice have the effect of preventing the sovereign from circulating in this country, just as during the war there was no positive declaration of the inconvertibility of the note, but other methods were used which did in practice render the note inconvertible.

11,002. Under head 2 of Memorandum No. 3 you say: "It seems that, if once the idea spread that this quality in the rupee is to be taken away, the result would be to bring the rupee into disrepute"; and you go on later to say that the merchants will buy them up from the peasants, or words to that effect?—Yes, I made that suggestion.

11,003. Which rupees have you in view in saying that, the hoarded rupees, or the rupees in active circulation for day to day purposes?—I would refer particularly to rupees in store, because in the early stages of the scheme gold coin would not be available, and therefore the gold bullion that would be issued would presumably have to take the place of currency that was not in active circulation—in other words, the rupees in store principally. I find it rather difficult to draw a distinction between what is in permanent store and what is in temporary store. A man may keep a certain amount in a box intending to use it against a rainy day, or at some later date, and would always know if he converted some of these rupees into gold bar, the gold bar would itself be saleable again for rupees if he wanted to turn it into legal tender. That would be before the final stage of declaring the rupee limited legal tender arrived.

11,004. What I want to get at is which rupees you have in mind. According to the various memoranda we saw in Delhi, 100 crores or thereabouts were supposed to be in hoards, and the remainder in active circulation?—I particularly refer to the amount in store, but what I had really in mind was that there would be a tremendous incentive to get rid of all that was in store if the rupee was really being exploded, and it would be very easy to create apprehensions amongst the holders of stored rupees. It is possible in those circumstances that the amount of stored rupees which would come out for exchange would exceed the 110 crores, which I think is one of the estimates given here.

11,005. You think that is on the low side?—I think it may conceivably be on the low side, because if 150 crores are in circulation, and you had 110 crores, that only gives 260 crores, whereas it seems to be admitted that there is a considerable amount in excess of that somewhere or other in the country.

11,006. 90 crores are in the Government Treasury?—That makes 350 crores, but the amount in the country may be more than that. I do not know how much more, but I think the figures furnished in India indicate that.

11,007. You regard 110 crores as being insufficient?—I am not inclined to commit myself to a figure, but I only seek to suggest that the revolution in currency which this proposal involves might bring out almost every rupee that could be spared from the active circulation over the period of years in which you would have to keep the offer open. I would like to say on that point that when a Government has issued a full legal tender coin for a very prolonged period, and a coin which occupies quite a different position from any token coin anywhere else that I am aware of, I think it would be very difficult not to give the fullest opportunities for conversion when that coin becomes no longer unlimited legal tender. I think it would be necessary, if you are to avoid any charge of bad faith, to hold the offer of conversion open for a long time, if not indefinitely, and for the Government to take steps to let the fact that the rupee is going to be degraded into limited legal tender be widely known throughout the length and breadth

of the country; otherwise you will be open to the charge of bad faith later on, when untutored people with no knowledge of these matters are told that their rupees are only worth their bullion weight.

11,008. With regard to it being limited legal tender, I suppose you know the Fowler Committee dealt with that question in their Report, and in paragraph 56 of that Report they say this:—

> "At the present time the right to coin silver is confined to the Government, who are responsible for seeing that there is no over-issue; and in the exercise of that responsibility no additional silver is coined at the Royal Mint for the United Kingdom except in response to the automatic demands of trade, as testified by requisitions received through the Banks of England, of Scotland, or of Ireland. Seeing that for every 20s., of additional silver coin requisitioned the Banks have to credit the Royal Mint with a sovereign, there is certainly no temptation to them to demand an over-issue, the immediate profit on which would go not to themselves but to Her Majesty's Government. While it cannot be denied that the 40s., limitation tends to emphasize and maintain the subsidiary character of our silver coinage, yet the essential factor in maintaining those tokens at their representative nominal value is not the statutory limit on the amount for which they are a legal tender in any one payment, but the limitation of their total issue. Provided the latter restriction is adequate, there is no essential reason why there need be any limit on the amount for which tokens are a tender by law. It is principally to restriction of the total issue of silver coinage in the United Kingdom that we attribute the fact that 20 silver shillings (intrinsically worth at present about 8s. 6d.) pass current and are freely received, for all purposes of internal currency, indifferently with the sovereign which they purport to represent. By law there is no convertibility of our silver coins into gold. They possess an extra-legal convertibility evinced by their being generally and popularly exchangeable into gold, and this quality they owe essentially to the fact that they are not issued by the Government in excess of the volume required for the purpose which they discharge."

What would you say to something similar being devised to control fresh coinage of rupees?—In the past rupees have only been obtainable in exchange for gold or gold exchange and in that respect the position in India conforms to what is said here—that there was no inducement on the part of the Bank to get rupees; they did not make a profit on them; the profit on the coinage of rupees went to the Government. I think the practice in India closely conforms to what was done here.

11,009. Despite that there has been a superfluity of rupees?—At times you get a superfluity of rupees when there is a reversal of the normal Indian trade current. We have recently had in this country an example of superfluity of silver coin which led the Government of the day to relieve the Bank of England from holding that silver coin. Though many people do not regard it as an ideal thing or as strictly consistent with the idea of a gold standard, at the present time there is a considerable amount of silver coin held in the British Currency Note Reserve. I only mention that point as showing that even in this country you may get a situation in which there is a redundancy of silver coin.

11,010. The difference however is an important one of degree, is it not?—It is certainly the case that the position in India is different, because the rupee in India bears to the total circulation including the cheque circulation—the Bank deposits—a ratio altogether different from that which subsidiary silver in this country bears to the total circulation including Bank deposits. Except on the surface there is no real analogy between the position of the rupee in India and the position of silver coin in this country. There is an intrinsic difference in the parts those two coins play in the trade mechanisms of their respective countries.

11,011. The scheme here has worked very well and has been automatic in its effect?—That is so.

11,012. The token nature of the shilling is about the same as the token nature of the rupee—the difference is about the same?—They are both token coins, yes.

11,013. If we have a gold coin in India as the standard coin we can regard the silver coin in exactly the same manner as in England?—Except that the position in India would demand the presence in the country of a much larger proportion of silver in circulation than we have in this country.

11,014. You think that the number of rupees necessary per head of the population in India would be larger than the number of shillings necessary per head of the population in this country?—I would not necessarily say that, but the proportion which the silver circulation must bear to the total circulation, including the cheque circulation, in India will be much greater than the proportion which the subsidiary silver circulation has to our total circulation in this country. So long as that is the case you cannot have anything but a superficial analogy between the conditions in the two countries.

11,015. Is there any analogy when you take the cheque circulation here into consideration and the cheque circulation in India? Would not you make allowance for that when you compare the two?—In this country contraction may take place very largely, and does in fact do so, through a decline in the bank deposits, which has a very different bearing from what happens in India, where a reduction of the circulation largely means that it must be focussed on the actual circulating medium—notes and rupees. I do not think so long as you have got banking conditions in India in a very elementary state you can produce except superficially the appearance of what prevails in this country. I believe in the case of India so long as the rupee bulks as large as it does in the every-day life of the people, and so long as rupees form, roughly speaking, 33 per cent. of the total circulation, including the deposit circulation, you will have to be prepared to deal at times with a redundancy of rupees in a different manner from what happens in this country, where a redundancy of silver is comparatively a rare occurrence.

11,016. In view of the undeveloped nature of bank facilities and cheque system in India, any comparison based on the bank reserves in India and the proportion of rupees in circulation would be somewhat misleading when compared with the bank deposits and the cheque system in England, would it not?—Certainly.

11,017. This shows that the Fowler Committee also attached great importance to the rupee being made restricted legal tender?—I notice that in paragraph 55 they say: "But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender; indeed, for some time to come no such limitation can be contemplated."

11,018. That is the ideal to be aimed at?—They appear in this paragraph to hint at it, but they make no suggestion as to the time when such a limitation can be imposed. As far as this paragraph is concerned it might be the Greek kalends.

11,019. They say it is a thing which would have to be worked up to. They did not indicate any time for gold currency to be introduced, and therefore they could not give any time for this?—They say existing conditions in India do not warrant it at present, but they do not give any idea as to the time, nor do they say a time will ever come, at any rate in this paragraph. I do not know if they say it anywhere else, but they do not say it in paragraph 55. They do not envisage any practical date when the limitation on the legal tender quality of the rupee can be imposed.

11,020. They say "for some time to come"?—That may mean 20, 50, 100 or 200 years.

11,021. That was a necessary part of the scheme in any case. They showed a method by which it could be done, namely, what was in vogue in the United Kingdom?—I do not see in that paragraph any positive recommendation. I see an expression of opinion, but I do not see any recommendation that the Government should aim at creating conditions when they will be able to limit the legal tender of the rupee. All there is in that paragraph is an expression of opinion that the time has not come when that can be done and that they cannot say when it will come. I see no recommendation that one should aim at creating conditions under which it will be possible.

11,022. In another paragraph you say: "but in this matter of the possible extent of the substitution of gold for notes, no estimate is possible at all and no practical limitation can be set." Do you expect substitution of gold for notes?—I think it is a serious possibility which must be borne in mind in dealing with this kind of project.

11,023. Is it your opinion that notes are being used for hoarding purposes?—I am not suggesting that. I have not any evidence on that point to offer, but possibly you heard some opinions on it in India. What has struck me as important is the high proportion the circulation of the 10-rupee notes bears to the total gross circulation—40 per cent. It is quite clear that a gold coin of a denomination of 15 or 20 rupees would be a convenient alternative for carrying about with you such sums as 100 rupees, in the same way that people here used to carry sovereigns about in the old days.

11,024. For purposes of active circulation?—I think so. Under a scheme of this kind, when the rupee was in process of being blown up and a general currency revolution was in progress, I think there is a grave risk, particularly in a country where circumstances indicate a preference for gold when it can be obtained.

11,025. The 10 rupee Notes are in active circulation from day to day, and you apprehend that with gold currency in circulation people may carry about gold Mohurs instead of 10 rupee Notes?—I think you have to face that possibility.

11,026. It is not that they keep the 10 rupee Notes for hoarding purposes?—I do not suggest that.

11,027. Therefore that amount of gold coin would be in active circulation?—In so far as there is any retention of Notes as a store of value, a matter on which you could speak with much more authority than I, there would be *pro tanto* greater inducement to hoard the gold coins, but I am not suggesting there is any substantial retention of notes as a store of value. I can see certain drawbacks to keeping notes as a store of value.

11,028. (*Chairman.*) The evidence we had, if I remember it correctly, is that it is not wholly unknown for paper Notes to be kept as a store of value; there were a few specific cases in which Notes had been hoarded which were mentioned to us; but we were told that if the practice did exist it was very unusual. (*Sir Purshotamdas Thakurdas*: Yes.) I am not suggesting it is done to any appreciable extent, but in the limited number of cases to which you refer there would be an inducement to substitute a more durable and valuable form of material.

11,029. (*Sir Purshotamdas Thakurdas.*) Those who exchanged Notes for gold coin would do so more out of curiosity at the start than for the purpose of retaining the gold, would they not?—I do not know whether it would be from curiosity or from a preference for that form of currency, because we are all familiar with the conditions to which Notes may be reduced in India, owing to climatic conditions, and so on, while gold coin offers some advantages in a country like India with its extremes of temperature. It is better to carry about. I should prefer to carry gold coins in India than some of the notes one is used to receiving for change in the shops and elsewhere, and I think it would be most unnatural if, when gold coin was freely available, people should not prefer to a large extent to carry it rather than Notes which suffer so very much from the conditions under which they are used.

10,030. Do you think that in certain circumstances the currency note is a source of inconvenience?—It is a very convenient thing for carrying about but it is liable to become dirty and torn. I think there are distinct advantages in a country where there are extremes of temperature and notes are subjected to rough handling in having gold coins. I think, therefore, you would be bound to have some risk of people turning from paper to gold. I do not advocate a gold circulation and it is not a necessity; obviously it is not, but if it was offered people would see that it possessed certain advantages of a practical character and therefore you would have to be prepared for the possibility that people would turn to it.

11,031. What I am trying to get at is that in those districts they would handle coin, but in districts where people have taken to paper currency why should they change over to gold coin, unless it was out of curiosity's sake at the beginning? Those who believe in the convenience of the currency note and who have got used to it would have no reason for changing over to gold coin when they know they are only carrying the money to pass it on to someone else in the ordinary course of business?—But they would know they would probably themselves receive gold coin in the ordinary course of business also.

11,032. A business man may receive gold or silver or notes, but only keeps them in his till ready to pass them on to someone else eventually?—But the gold would be passed on with greater confidence because a man would know that he himself, when it was his turn to receive payment, would receive it in gold.

11,033. When a gold currency is available people will feel they can get gold whenever they want it, and be indifferent as to whether they take gold or paper?—I suggest their readiness to part with gold will be partly influenced by the fact that they will be receiving it when payments are made to them. You may find there is a general utilisation of gold to a considerable extent in substitution for these 10 rupee notes which form, as far as I can see, about 40 per cent. of the total circulation.

11,034. Under the second head of your third memorandum you say, "But with the gradual return of the nations of Europe to gold the markets for the metal are increasing, and the tendency may be for countries to add to their stocks as opportunity offers with the object of strengthening their note reserves." You admit there that various countries will add to their stocks of gold as opportunity offers?—I think they are likely to wish to do so.

11,035. I wonder whether you feel India might justifiably do so too as opportunity was afforded her?—I think the position of countries, so far as the acquisition of gold is concerned, differs a good deal according to their nature. It is obvious that a country such as the United Kingdom, where there is a free gold market in a sense which does not prevail anywhere else in Europe, will feel the necessity for holding gold; that is obvious. On the other hand, a country which can have the same advantage without the same cost—in other words, which can hold its gold in the form of gold exchange—is not under the same necessity for holding gold. I think practical wisdom suggests that in the case of such a country the necessity for holding gold is not so obvious.

11,036. From the international point of view, if other countries replenish their stocks of gold as opportunity offers there should be no objection at all to India replenishing her stocks of gold. In view of her favourable trade balance, there is no reason why India should not take that balance, after paying

her external debts, in the form of gold?—As a matter of fact, at the present time she is continually replenishing her stocks of gold in the ordinary way of commerce. India has replenished her stocks of gold in a way which very few countries are doing or are capable of doing at the present time. She is adding to her gold to a very large extent now.

11,037. India is doing it in the same way as other countries would if the opportunity arose for them to do so; she is doing nothing exceptional?—She is doing something exceptional.

11,038. In what way?—In the sense that the ordinary public in most other countries do not aim at increasing their individual holdings of gold; in the case of other countries the parties who are interested in the gold question are not the citizens, but the banks.

11,039. The difference is that in the case of India the banks, that have to do it, do it in England?—Only one authority is closely concerned with the question in England, namely, the Bank of England. The ordinary public is more or less indifferent, as far as I can see.

11,040. Do I understand you to make out that India is getting a greater proportion of gold than she is entitled to?—I do not suggest that, because anyone who sells articles and does not choose to take imports in the form of other commodities is entitled to ask for payment in metal. If other countries are in the position of having free gold markets she is entitled, so long as that condition endures, to convert her claims into gold claims and to take gold. That is what India has been doing on a very large scale in recent years.

11,041. If after paying her liabilities abroad she takes gold in liquidation of her balance of trade, I suggest to you that India would, according to what you say here, be doing exactly what every other country is likely to do?—I suggest in response to that that the exporters in other countries prefer to take their payment in the form of commodities other than gold.

11,042. I take it the exporters in India would take commodities if they needed them. I do not suppose Indian exporters have said to themselves, "We will not take commodities even if we can sell them at a profit in India; we will insist on gold." The gold going to India is gold going in response to normal demand there?—Yes. We recognise there are special circumstances in India which lead to a demand of an unusual character for gold as a commodity. What we are concerned with in these papers is the question of substituting for the counters with which business is transacted a more expensive form of material than is in use at the present time or than has been contemplated in recent years, and my suggestion is that one must distinguish between the demand for gold for social purposes and the demand for gold for purposes of a circulating medium. In this country we are not encouraging the idea of utilising gold as a circulating medium, and my contention in this paper has not been concerned with the right of Indians to take gold for social purposes, but with the wisdom or unwisdom of tampering with the main medium of circulation in India.

11,043. I would like this question to be kept in two separate parts. First of all I want to ask you about the position of India vis-a-vis the rest of the countries taking gold. Until now we have been dealing with this point. You yourself say the other countries of the world are looking forward to obtaining gold as soon as opportunity offers, and therefore as far as the other countries of the world are concerned there is no question of any complaint on their part. It has not yet been said that India has drawn more than her share of the gold of the world?—I have not made that suggestion, and I do not make it.

11,044. Do you agree with me that India is doing exactly what other countries are seeking to do as soon as opportunity offers?—I suggest there is a distinction between what the Government or Central Banks of a country do and what the people do. The obligation of the authority responsible for the currency in India is that it must provide an absolutely sound currency system for the country, and that question has to be considered apart from the demand of the Indian people for gold for social purposes; it has to be considered with reference to the attitude of the Central Banks in other countries. You have to consider in that connection the policy which is being adopted by the Central Banks not only of this but of other countries throughout Europe, and so far as I know they are not generally favourable to the idea of introducing gold as a circulating medium.

11,045. But those Central Banks would have no say if a Government imported the gold and kept it in its Treasury. To that extent that gold would be drawn from the world's reserve of gold and would be justifiably so drawn. Whether a Government put it into active circulation or kept it in its Treasury vaults, is a matter for the country concerned to decide—a separate question which we will deal with separately?—The answer is that it is a question for decision whether it is to the advantage of the country for its Government to compete for gold or whether a thoroughly sound circulation can be maintained by the acquisition of gold exchange instead. It must be appreciated that gold acquired by Government would be an addition to and not in substitution of gold taken by the people for social purposes.

11,046. Under (B), paragraph (3), you say: "If India had enjoyed a gold standard based on a gold circulation at the outbreak of war, it is open to question what her subsequent policy would have been." Several Dominions within the Empire had gold standard based on gold circulation, had they not. Take South Africa, for instance?—South Africa certainly had.

11,047. Australia and New Zealand also?—There was a certain amount of gold in circulation in those countries, but notes were also in circulation in Australia to a large extent. I cannot, without investigation, say what proportion the gold in circulation had to the total circulation of the country.

11,048. The policy they adopted did not embarrass the United Kingdom, but if anything was helpful?—In South Africa the policy was to conserve the gold in circulation, and for a time the South African authorities did not issue gold for circulation—during the war. The note in South Africa, I believe, became inconvertible, but Sir Henry Strakosch can correct me there.

11,049. (*Sir Henry Strakosch.*) It was convertible into what were called gold certificates up to June of last year, and then specie payment was resumed. Anybody could demand gold coin, but in point of fact by far the greater part of the circulation is still in notes and not in coin, though coin can be demanded at any time at the bank.

11,050. (*Sir Purshotamdas Thakurdas.*) I wish to ask you to tell me why you think it is open to question what the subsequent policy of India would have been if she had had a gold standard at the outbreak of war, and why you think her policy might have been more injurious to the United Kingdom than the policy of any of the Dominions?—When the Empire was involved in a life and death struggle, and when the essential need for pressing the war to victory at an early date was the dominant factor, it would not have been in India's interests or consistent with the place she occupies in the Empire for her to have sought under those conditions to demand gold for internal circulation. That gold was required for conservation and for use in countries which were not our allies. I suggest that India would have had to adopt a policy of conserving gold and would have had to accept some other form of payment for her supplies.

11,051. My question was as to what led you to suspect that India would not have adopted the same policy as South Africa or any one of the other Dominions. If India had had a gold standard with gold currency, what makes you think India would have insisted on gold payments during the war period and would not have fallen into line with the policy adopted by the other Dominions?—I think India would not have insisted on gold payments.

11,052. And therefore she would not have embarrassed the United Kingdom?—In other words, if we had had this gold circulation scheme going in India at that time, India would have been forced to go inconvertible at a very early date.

11,053. You say it is an open question what her subsequent action would have been. I say it would have been exactly the same as that adopted by the other Dominions so far as it was compatible with local conditions. There is no reason to suspect the Government of India would have insisted on gold payments. For one reason, it would not have got them?—The point of this remark relates to the criticism that the gold standard would have saved India from a number of evils connected with her being on a gold exchange standard. What I am saying—and I am glad to find you agree with me, Sir Purshotamdas—is that at that time she would have had to give up the gold standard.

11,054. And would have avoided having to buy silver at fabulous rates?—No, because means of payment would have had to take some other form—either silver or inconvertible paper. The observation is meant as a criticism of the suggestion inherent in some of the Indian memoranda that her unfortunate experiences in the war—that is the way in which they are represented—were due to the fact that she was on a gold exchange standard. I only suggest—and I am glad to find you agree with me—that she would not have been able to avoid those circumstances if she had been on a gold standard. The remark must be considered in relation to its context.

11,055. I do not propose to discuss what others have said; I only ask you whether you have any reason to think India would have adopted a policy different from that adopted by other parts of the Empire?—She would, in my opinion, have been forced in her own interest to adopt a similar policy, but I wish the remark to be studied in connexion with the context in which it is written. It is an answer to the suggestion that the possession of a gold circulation would have enabled India to avoid the inconveniences she suffered in the course of the war and to have retained convertibility, to which at that time very great importance was attached.

11,056. In the last sentence of that paragraph you say: 'If, under some national stress or emergency, sterling were again to become divorced from gold, the action to be taken by India cannot be prejudged. but would have to be determined in the light of the actual circumstances." What would happen in South Africa if sterling were divorced from gold?—South Africa had to decide at a certain stage in the re-establishment of its currency whether it would cling on to sterling or whether it would go back to specie payment on its own account. India might in certain circumstances have to face a similar issue, and the actual decision would have to turn on what the facts and prospects were at the time. I think South Africa had to face this question some months before the return to specie payments was decided on in this country.

11,057. Did South Africa decide before Great Britain to return to the gold standard?—I speak with hesitation on this point in the presence of Sir Henry Strakosch. I hope he will correct me if I am wrong, but my impression is that South Africa decided that she would go back to specie payments on a certain date, but the actual date was in fact subsequent to the date to which we reverted to the gold standard in this country.

11,058. (*Sir Henry Strakosch.*) There was a date set out in the Act when the country was to go back to specie payments unless otherwise decided by the Legislature, and that date was June, 1925. No action was taken, and the country automatically went back to a full gold standard. That was anterior to the decision in this country to revert to gold payments?—Actually the date when our Chancellor of the Exchequer made his Budget speech—in April, 1925—practically marked the return to the gold standard in this country. We can be said to have returned to the gold standard in April, 1925, when the bank allowed gold to be exported under licence. The obligation on the part of the bank did not come into effect until the end of December, 1925, but for practical purposes the gold standard was re-established in this country at the time Mr. Churchill made his Budget speech last year, and that was actually anterior to the date when South Africa went back to the gold standard, which was in the middle of the summer.

11,059. That is so, but of course South Africa had taken the decision not to extend the date?—My only point was that the actual date on which the decision operated was as a matter of fact subsequent to the time when this country in effect reverted to gold.

11,060. (*Sir Henry Strakosch.*) It declared its policy previously.

11,061. (*Sir Purshotamdas Thakurdas.*) That was an accident. They took the decision before this country went to gold point, and it was definite that they would stick to their decision?—That was the case. South Africa took this decision, and no doubt it had some effect on the policy that was decided on in this country. All I am saying is that there was a doubt as to what might happen in 1925 with regard to this country, although South Africa made up its mind. A similar question for judgment and discretion might also conceivably arise under this scheme as regards India and one cannot predict what would be done.

11,062. Why should not the question be allowed to be treated in the same way as in the case of South Africa? If sterling breaks away from the gold point the conditions would be watched and India would take such steps as would embarrass the United Kingdom to the least possible extent; in fact, India might even make some sacrifice for that purpose. Is there any reason for keeping India away from what has been adopted in other countries?—I agree that if sterling broke away from parity the question of the currency policy of India would have to be considered in the light of that situation. She would have to decide in such a case whether to follow sterling or whether to take an independent line of her own. This was actually a matter which arose in the course of the war, and for a considerable period India followed sterling and kept to the 1s. 4d. ratio, but at a certain stage later on that ratio was abandoned; in other words, India's policy was considered from the point of view of India's interests, as it would always have to be considered in future. India would be free, if such an emergency occurred again, to decide what her currency policy should be in the light of all the circumstances prevailing at the time. The point is that the mere adoption of a gold circulation cannot guarantee one against the sort of difficulties which have been, in my judgment, wrongly imputed; as I understand the Indian memoranda, to the gold exchange standard.

11,063. (*Sir Reginald Mant.*) You were discussing just now the suggested analogy between the position of the rupee and the silver coins in this country. You pointed out, I think, that in the Finance Department Memoranda, it was assumed that after the rupee had been demonetised the same amount of rupees would be required for circulation as before, namely, 150 crores?—That appears to be so.

11,064. Does not that point to the fact that the analogy drawn, or sought to be drawn, between the rupee and silver coinage in this country is not a true analogy at all?—Yes, I think it does.

11,065. There is such a difference between the size of the ordinary payments made in India and those

made in this country. The ordinary transactions in India differ so much in size from the cash payments in this country that it would be a truer analogy to compare the position of the rupee to the sovereign before the war or the £1 note now?—Yes, I think that is absolutely true; I find myself in complete agreement with that. It leads one to enquire whether there is any meaning to be attached to "limiting the legal tender quality of the rupee" if for all practical purposes the rupee is going to go on as unlimited legal tender after the declaration in the same way as it did before. I think very largely we are using words which when analysed do not have any proper significance.

11,066. In fact, the rupee must be regarded rather as a unit of currency than as a fraction of currency?—Absolutely.

11,067. The true analogy would be between the 4-anna and 2-anna piece—the subsidiary coins in India—and the silver coinage in this country?—Certainly. That appears to be admitted by Sir Basil Blackett, who at some stage in his evidence said, "I do not think there would be necessarily any large reduction in the volume of transactions still carried out in rupees."

11,068. To turn to the question you were discussing just now with Sir Purshotamdas Thakurdas as to the sterling standard or gold standard, I understand from what you said on Monday that you are in favour of linking the rupee to sterling and not to gold?—The rupee, as I envisage the position, would be issued by Government in exchange for a certain number of grains of gold. In other words, the tenderer of gold in India would be entitled to acquire rupees at a fixed rate. In actual practice, for purposes of quoting exchange, the quotations would be in sterling, but I contemplate that the rupee should be linked to gold and not to sterling in the sense that the Government or Bank charged with the duty would be under an obligation to issue rupees if gold was tendered to it. The question of tenders of gold to the Bank or the Government, as the case might be, would no doubt be influenced by the policy adopted in the matter of selling rupee exchange against gold exchange. In other words, if you assume—as I am disposed to assume—the identity of gold and sterling for all practical purposes the distinction between the two ceases to be of great significance.

11,069. I do not think you have made your position entirely clear. You say that Government would be under an obligation to give rupees for gold, but you do not make it clear what obligation Government would have to give gold or sterling for rupees or Notes for foreign exchange purposes?—I am contemplating in these other Memoranda that if the Commission consider the time is suitable the Government should undertake an obligation—either the Government or the Bank—whoever is charged with the duty—to give gold or gold exchange at the appropriate price for local currency without limit if so required.

11,070. Either gold or foreign exchange?—At the option of the Government, but in practice I contemplate that gold exchange would form the ordinary vehicle for adjusting a temporarily adverse balance against India—the object would be convenience and economy of gold.

11,071. You are really in favour of a gold standard and not a sterling standard?—Certainly.

11,072. I understand from what you have said to Sir Purshotamdas Thakurdas that if sterling broke away from gold again India would then have to choose whether she followed sterling or followed gold?—I think that would introduce a new factor into the case which would necessitate a consideration by those charged with India's interest of what her currency policy should be. That would be a world factor of a momentous character which would, I think, necessarily impose on the responsible authorities the duty of considering in what direction India's interests lay. It would not necessarily follow things would automatically go on as before; you would have to consider the question of altering your rates in a case of that kind.

11,073. It would be a very material consideration, would it not, whether you were legally tied to sterling at that time or whether you were legally tied to gold? If you decided to remain with gold you need not take any action at all; you would only need to alter your law if you decided to follow sterling. That would be a material factor?—You would find yourself up against this position. In a situation of the kind we are contemplating at the moment there would have been a depreciation of sterling. You have got an offer out, under this scheme we are now discussing, to give gold at a certain price or sterling exchange at a certain price without limit at the Government's or Central Bank's option. If the sterling exchange had depreciated you would find yourself pressed with a demand for gold in order to maintain the established ratio, and if you acceded to it in principle either by giving gold or appropriately increasing your statutory rate you might be faced in conditions of that kind with the possibility of sufferng a serious drain of your gold or gold exchange, because speculators or others might form the view that the departure of sterling from parity was of a temporary or ephemeral nature and they would aim at making excessive outward remittance and become holders of sterling, reckoning that when sterling returned to parity they could replace the rupee at a profit. I think if a situation of that sort arose you would have to consider your position.

11,074. You do not suggest that if sterling depreciated the giving of sterling instead of gold would discharge your obligations. When you said you would give gold or foreign currency, you meant foreign currency on a par with gold, did you not?—Yes, that is what I mean. In other words, if you decide to remain on gold you would be forced to alter the price at which you would be prepared to sell sterling exchange.

11,075. Naturally, if sterling broke away, and we remained on gold, the sterling exchange would alter?—You would have to get your offer of sterling exchange on to the lines of gold parity of the rupee; you would have to alter the rate with reference to the discount on sterling in terms of gold.

11,076. My point is, you would not require to alter the law if you remained on gold?—No.

11,077. Whereas if you are linked to sterling, and desire to go on to gold, you would have to legislate to do so?—Yes.

11,078. Under (D) of your Memorandum No. 3 you say: "It is well understood that under the gold exchange standard the employment of the gold reserve in connection with the sale of reverse Councils for the support of exchange," etc., "would involve a corresponding currency contraction." That result would only follow if you maintained the total of the reserve intact by locking up rupees in India?—That is so.

11,079. Is that what you mean there?—That is what I mean—that in so far as you utilise sterling assets in that gold standard reserve on this side to meet reverse drafts, you would have to place in a vault in India the rupees corresponding to the amount of sterling withdrawn.

11,080. That is assumed in what you state here?—Yes. What I meant by that is, that the authorities conversant with the policy, and charged with working the scheme, understand that the sound employment of the gold standard reserve does involve bringing about a contraction in India corresponding to the reduction in the reserve on this side, and the idea I had in mind there was an answer to the suggestion that the gold exchange standard as worked properly was defective in comparison with the gold standard with a gold circulation, whereas I should take the view, which I think has been held by many writers, that the system is just as automatic in its regulation of the money

supply as the strict gold standard, although there is no gold in circulation and no necessity to move gold backwards and forwards between the two countries.

11,081. I wanted you to clear up that point, because I rather gathered from something you said that you wished to relax the contraction for fear of causing excessive stringency in India?—I have no desire that we should depart in our practice from what the dictates of strict theory require. All I had in mind was that it is conceivable that you might have to face at a particular time the question of whether strict compliance with theory might not inflict an injury on an interest wider even than exchange. For example, take the case which occurred in 1920, and which is dealt with in the memorandum which I have put in to you. The authorities held at the time that further contraction was not consistent with the maintenance of India's trade interests in the widest sense. The choice, therefore, was between imposing a further drastic restriction of currency, which might have driven the money market rate of discount to a phenomenally high figure, and letting the exchange lapse for the time being. The authorities at that time felt that it would have been contrary to the interests of India to have supported exchange more than they did by imposing additional contraction. I only suggest it is conceivable in the circumstances of India for the reasons set out in the memorandum, that you might be faced with that issue again. Normally it ought to be well understood and recognised that there should be *pari passu* contraction when reverses are sold. I think that that ought to be the guiding principle and that it should be laid down with due formality.

11,082. If you found that the following out of that principle and the strict application of it caused severe stringency in India, would you let the exchange go?—There are half-way houses in this matter, of course. As long as you are prepared to sell your gold exchange at the proper rate without limit of amount, your exchange would not go, though you would not have effected the necessary contraction immediately. You might be able to give the banks a somewhat longer time to draw in the currency which would be set aside at a somewhat later date. I had in mind, for instance, the devices which are available in this country, for example, for relieving money stringency in connection with the Bank of England's operations. In a certain sense this has a rough analogy to that; in other words, I think we have had in the papers that I have produced some indication that with a longer period you might be able to get the desiderated contraction, but you might not always be able to get it absolutely *pari passu*, owing to the fact that since the money organism is so imperfectly developed in India, the immediate burden of contraction is focussed on a very narrow field at present. In this country an alteration of the rate of discount has repercussions from the Isle of Wight to the Hebrides at once, but in India, where an important part is played by the relatively uncontrolled cash, it takes a very considerable time, or, let us say, a much longer time than in this country before the influence of a rise in the discount rate is felt with due effect. In other words, the adjustment of internal prices to external levels is not so capable of prompt achievement in India as it is in a country where the whole credit structure is under the control of the banking organisation, and the cash is merely the basis which supports the credit.

11,083. Do you mean that if the situation of 1920 recurred you would take a similar course of selling reverse Councils at the fixed rate, although the exchange had broken away? That is rather what you seem to suggest?—I think the question of the rate at which reverse Councils were sold in 1920 is somewhat different from the question as to what should have been done with the resources obtained by the sale of gold or gold exchange from the reserves. I do not want to defend in all details the policy of 1920.

11,084. I was not going into that; I was asking what you would do in future if a similar crisis arose?—I think if a similar crisis arose I should set out with the firm resolve to effect contraction in India *pari passu* with drafts sold against the reserve on this side, and I should require the co-operation of the banking authorities to enable me to effect this; but if at some stage in the proceedings the banking authorities came to me and said, "If this kind of thing goes on we shall have to raise the rate to 10 or 11 per cent.," or whatever it might be, I should then have to consider whether I should suspend the sale of reverses, which, obviously, in those conditions would mean an immediate lapse of the exchange, or whether I should keep on my sales of reverses, contracting in India to the greatest possible extent, but not necessarily to the absolutely full extent strictly desiderated by the sale of reverses, the understanding with the banks being that the rates of discount would, so far as conditions in India allowed, be advanced to such an extent or maintained at such a point as would enable me to make good as early as possible what I should frankly regard as a lapse from the ideal, but a lapse imposed on me by the necessity of paying regard to trade interests and the money markets of India.

11,085. You would go on selling reverses rather than let the exchange go?—I should have to judge that question in the light of the actual situation at the time. If I saw that the position was such that there was no hope of adjusting Indian prices within a reasonable measure of time to a very sudden and large fall in external prices, I should then probably come to the conclusion in the circumstances described that it would on balance be to the advantage of India for the time being to suspend the sale of reverses and to let the exchange go below accepted parity. If, on the other hand, I felt that with a short delay I should be able to effect the necessary adjustment, I should prefer to take the view that the sale of reverses at the proper rate should be continued for a period, the understanding being that we should endeavour to contract as hard as we could up to the desiderated amount. I do not think I could put it more definitely than that, because, as I say, I think you would have to form a judgment in the light of the facts of the particular case. If in 1920, after the adoption of the 2s. rate, it had been foreseen what a sensational fall in gold prices was beginning, the right policy in a case of that sort might possibly have been to suspend the sale of reverses at once, but people could, of course, argue, even in a case of that kind, that the sale of reverses acted to some extent as a brake on the fall of the Indian exchange, giving it a certain support, and that this helped people with commitments to get out of those commitments with less serious results than would have been the case if the exchange had collapsed suddenly.

11,086. You contemplate really two safety valves against excessive contraction: one is possibly letting the exchange go, and the other is possibly selling reverses for a short time to mitigate the stress?—Yes, without having the strictly desiderated contraction going absolutely hand-in-hand with that operation. I am not, as you understand, advocating these things as ideals, because, as I say, I regard the ideal as being *pari passu* contraction, but a study of Indian conditions leads one to the view that unless we can have some means of relief to give the Indian markets time to adjust themselves, we might be brought to a deadlock, not by any deficiency of the reserves, but by the inability of Indian market to stand the contraction required.

11,087. I think I see what you mean. I just want to clear up one point. Would you provide for these safety valves by legislation, or would you treat action in this emergency as analogous to suspending the Bank Act in England?—That is a question I have some difficulty in answering, because there are some advantages in making contraction a legal obligation

if you really felt it was going to be generally enforceable, and that the need for giving some relief would not present itself, possibly, on the first occasion when you had to resort to the sale of reverses. As an alternative to legislation, of course, you could have a firm announcement of principles, say, by the Commission if it took that view, and subsequently by the authorities in India in the form of a resolution or in some other way. They might make it clear that they recognised it as an obligation to go in for *pari passu* contraction, and there you would have to leave it. There are methods less rigid than a law for giving effect to this conception, methods with which you are familiar. It is a difficult question to know whether you should make it a legal obligation in India, because I do not know if I am wrong in saying of this country that, although it is obvious that if the Bank of England loses £1,000,000 of gold there is automatic contraction to that extent, the Bank of England has methods by which it can come to the assistance of the market, and I think if you made it legal in India, as the other methods of giving relief do not apparently exist there, you might be tying yourself up rather more than you are tied up even in this country. I feel some difficulty on the point as to whether it should be a legal obligation or a principle firmly enunciated in some other way. On this point there is one thing one ought to say, and which I have said in this other memorandum, and that is that in the past we have recognised as quite an ordinary thing the meeting of reverse drafts from surplus Treasury balances on this side. In so far as that is done the payments made in India for the exchange sold go into the Government deposits at the Imperial Bank, tending thereby to increase the public deposits and the banks' cash ratio, and thus to that extent making rather for ease in the market when what you want is to stiffen rates. I think that the policy of meeting reverse drafts from Treasury balances, which involves no obligation to contract, was defective.

11,088. It is surely quite clear that meeting reverse drafts from Treasury balances does not involve any contraction at all?—It is in a sense a positively expansionist influence in so far as it strengthens the cash position of the principal bank. I think, therefore, that that policy was wrong. I am also of opinion that in the past we have, perhaps, not had sufficient recourse to the discount policy in this connection. How far the discount policy would be effective in the circumstances in India is, I think, very arguable, and it is discussed in these papers, but certainly one ought to call in that weapon to the maximum possible extent. One should definitely recognise when reverses are being sold that it is up to the principal banking authorities to do all they can to work hand in glove with the exchange policy, which has not always, I suggest, been sufficiently recognised in the past.

11,089. It has been suggested to us by many witnesses that we should make the system "fool-proof" by making it a legal obligation to contract the currency. I do not want to press you on that if you cannot give an opinion on that proposal?—As I say, I incline, myself, if conditions remain as at present to favour a firm announcement of policy in some other than a legal way, for the reasons I have given. I think in this country there are methods of easing the situation which are not open to us in India, and I think we ought to give the authorities charged with the maintenance of exchange some measure of discretion as to the pace and intensity with which they impose contraction. The matter would require further consideration if control is made over to a Central Bank.

11,091. *Chairman*: I have one or two questions on that very interesting issue. We are contemplating a state of affairs in which a contraction in the currency produced by the normal operation of a basic provision such as this might produce a scarcity of credit which might be dangerous?—Yes.

11,092. Such conditions are allowed for in currency systems which are familiar to us under the provisions of the Statutes regulating the central bank by a mechanism frequently in the nature of an expansion of the fiduciary issue on special terms. That is a method of alleviating the contraction according to fixed rules laid down by the law, and under the control of the bank of issue—the central bank. On the other hand, there is the alternative suggestion that the alleviation should be left to the authority in control of the gold standard reserve according to some general principles which are defined but not statutory. I understand you hesitate to pronounce an opinion as between those two as to which is the more appropriate for Indian conditions?—I was not so much considering the alternatives or regarding them as mutually exclusive. You might, I imagine, have conditions in which the right to expand the currency on terms would sufficiently meet the case. The kind of bank of issue, of course, which I imagine we are contemplating now, is that which has a proportion, and, ordinarily, a fixed proportion, of the total issue against investments, the invested portion being capable of increase on payment of a tax in some form or other. Take a case where the metallic percentage has to be 40 per cent. for the purpose of an example. The loss of gold in a case of that sort means that you have, in any case, if you are to maintain your proportion, to reduce your total issues more than by the actual amount of the gold lost. There would therefore be, in any case, a certain strain, I take it. In the case of a country like India there would be a certain strain through the enforcement of that condition, because there a return of currency from up-country seems to take a long time. You do not get the quick response to the operation of the bank rates that you do in this country. In so far, of course, as the method that you are suggesting actually replaces credit to the extent of the method I was suggesting in answer to Sir Reginald Mant just now, in so far as the two things are equal, one would be just as effective a method as the other, because we are concerned with the total amount of credit available at a particular time, and, in so far as the amounts were equal, under either method the result would be the same.

11,093. I was looking at it rather from the point of view of the best administrative machinery. It might be said that in the case of one alternative a vital matter as regards the working of a currency system was being left wholly at large and absolutely at the discretion of a certain party, so that the general public and the trading community could never have any certainty as to what action would be taken under any given circumstances. Is that a practicable or a desirable scheme for permanent incorporation in the currency system of a country?—I think it is not really in itself desirable. One must, of course, envisage the possibility that there might conceivably be a period of weak exchange without the bank rates being necessarily at a very high figure in India. That has happened in the past, and even during the period of 1920 the bank rate was at certain times down to 5 per cent. The central financial authorities might find themselves in a position to increase the currency without any penalty in Indian conditions. I think that is a point which requires some consideration, because we have had experience of cases where there has been a temporary weakening of exchange, yet money rates in India were comparatively easy, and this particular policy of the fine would not really be effective.

11,094. Because there was still a margin you could let out?—Yes. I think also there is the other possibility, that the banks do not necessarily aim at keeping their banking ratio constant, and there is also possibility, therefore, which I suppose exists under any system, namely, that the contraction of credit desiderated by the central banking authority is

capable to some extent of being countered by the other lending authorities reducing the cash proportion in which they conduct their business.

11,095. Yes. No doubt that is possible in a country with a highly-developed banking system, but is that likely to create a practical difficulty in Indian currency problems?—Not in so far as you have not got in India the network of banking organisations that you have, for example, in this country.

11,096. That would rather point to the desirability of improving the organisation of the Indian banking system in relation to a central bank?—Certainly.

11,097. I have one or two other subsidiary questions. When you were dealing with the proposal that there should be a gold currency, as you describe it, as an excrescence, you advanced, I think, as the principal practical argument in favour of it that the gold coins might be substituted for silver in the event of the price of silver rising above the melting-point of the silver rupee?—That was certainly one aspect in which the proposal might conceivably have some use on special occasions.

11,098. I wanted to know whether, in view of the small payments that would be commonly required, you think that really would be of any practical assistance in an emergency, and relieve the Government from the necessity of dealing with the situation either by lessening the silver value of the rupee or by taking some other course?—I do not think it would be in itself a complete remedy, but I imagine it would give some kind of relief. Salaries could be paid in that way to some extent, and railway fares, where usually a considerable number of rupees are involved. You might be able to get some relief there, as has in fact been done on previous occasions when a considerable amount of gold was put out. Gold would also be available for securing the internal convertibility of the note.

11,099. You recognise, no doubt, that although it might be an alleviation it would not be a remedy?—Certainly. It would only be an alleviation.

11,100. (*Sir Alexander Murray.*) I gather you said you might be in favour of a gold standard without gold coins being actually in circulation. If such a standard had been in existence in 1920 how would you have set about contracting currency?—We are postulating for the moment that, say, a 2s. ratio was in operation, or something of that sort.

11,101. Yes?—You would have been under an obligation to give gold from your reserves, or gold exchange from your reserves at the appropriate price, and you would have had to lock up or destroy your notes *pari passu* in India. At that time, of course, you would have found yourself exposed to a tremendous demand for gold and gold exchange, especially on the part of persons who felt that you would not be able to maintain that policy for an indefinite period, and who would anticipate that after you had abandoned that policy the rupee exchange would weaken, and they would be able to replace rupees at a profit. You would have exposed yourself to the risk of very substantial drains on your reserves. You would have also come up against the difficulty of contracting currency proportionately, which *pro tanto* would have involved continuing the drain on your reserves, because you would not have removed from the market currency which could be offered to you in demand for gold or gold exchange. I think in the circumstances of 1920 you would have had to abandon that sort of policy pretty quickly.

11,102. It would not matter whether you were on a gold standard or a gold exchange standard in those conditions?—If one accepts the position that the adjustment of the internal price level in India to the external price level could not be effected with sufficient promptness. I think one has to accept that view. Of course, there would be the additional demands which might come on you from the holders of hoarded rupees, which they would expect to be able to replace to a large extent later on.

11,103. (*Sir Purshotamdas Thakurdas.*) In reply to Sir Reginald Mant, you said owing to the small payments to be made in India by the masses, you considered it necessary to regard the rupee as a unit rather than as a fraction of currency?—Yes.

11,104. For the same reason do you also consider it necessary that the rupee should be regarded as the standard unit of India?—By the standard unit, do you mean the main medium in which transactions are carried out, or as a representative of an imaginary gold coin of so many grains of gold which does not exist? I regard the rupee as being representative of a certain number of grains of gold.

11,105. And to that extent the rupee is the standard unit of India until you adopt some gold coin?—Until you adopt some other unit.

11,106. Can you tell me of any country which has a token coin as its standard unit?—The only cases which occur to me off-hand are in Europe the five-franc piece and in America the silver dollar. I think I am right in saying that in the Straits Settlements the standard unit is the dollar, which is a silver coin, and which forms the vehicle of business and the unit of the country, and which is kept stable with gold exchange.

11,107. The silver franc of France and the dollar of America are no longer being minted; in fact, by statute they have stopped minting these coins?—I am referring to conditions as they existed in the past. I imagine now there are none in France, and the silver dollar does not circulate to a great extent, I understand, in America. The nearest analogy is the silver dollar in the Straits Settlements, which is the main vehicle of business there, and the currency in which values are expressed; gold does not circulate at all.

11,108. Are the Straits Settlements on silver or on gold?—They are on gold, because the value of the silver dollar is kept stable with gold exchange.

11,109. Is that a token coin or a full value one?—A token coin.

11,110. None of the other countries of Europe have a token coin as a standard unit. Why do you recommend this particular experiment to be continued in the case of India?—Because I have to consider the special circumstances in India which are referred to here. In India this unit has been made the vehicle of business and has a long history and tradition behind it.

11,111. Because Indian people deal in small amounts, do you think it is necessary to maintain the rupee as the standard unit?—We are not yet in India able to advance to the stage of giving up a full legal tender metallic unit. In some of the European countries you have referred to the circulation of an unlimited tender metallic unit has been abandoned; they use notes.

11,112. (*Chairman.*) It would be interesting to have the facts about the five-franc piece. They were originally coined by the members of the Latin Union?—Yes.

11,113. In France the number was limited in 1873?—Yes.

11,114. Belgium imposed a similar limitation in 1873?—About that period.

11,115. The other members followed suit, limiting the amount of the issue in 1874?—About the same time.

11,116. In 1878 the coinage of five-franc pieces ceased?—Yes.

11,117. I think I am right in saying it has been resumed only in Switzerland, but subject to a limitation of so much per head of the population. That concludes your memorandum No. 3; we will now turn to memorandum No. 4. I understand this memorandum proceeds on the assumption that there is a continuation of the gold exchange standard?—That is so.

11,118. That is necessary to a correct apprehension of it?—Yes.

11,119. In so far as opinions are expressed in this memorandum, they are your personal opinions and not official opinions?—Certainly, and the various opinions expressed are subject to the conditions on

which the memorandum is written, which are stated, particularly in the last sub-paragraph to paragraph 2. For instance, I based this memorandum largely on a consideration of the Finance Department's memoranda, and when I wrote it I had not read the evidence given orally by the witnesses in India. The remarks in the latter part of this memorandum have been drawn up on the hypothesis, apparently assumed in the Indian memoranda, that the general character of the Imperial Bank will not be materially changed. I want to lay stress on that fact, because that was a condition I had in mind when I wrote this memorandum. It was written, in fact, in the light of the Indian memoranda. If a true Central Bank is created, my outlook and line of approach would be different. I should in such a case be desirous of vesting in it as high a degree of responsibility for the maintenance of sound financial conditions as the circumstances of India permit. That would be my bias, if I may use the term.

11,120. I will try to bring out what differences other assumptions make to your conclusions. In paragraph 1 you say, " but assuming that the Commission are satisfied, from the evidence taken in India, that no untoward consequences are to be expected from the replacement of a Government Note by a bank note." What sort of untoward circumstances had you in mind in that reference?—I had in mind the possibility that a change in the character of the authority guaranteeing the note might conceivably influence the acceptability of the note.

11,121. Are you able to express any opinion as to the degree of importance which should be attached to that consideration in view of Indian conditions?—Generally speaking, it has been the habit of the Indian public to look more towards the Government in matters of high financial moment than has been customary on the part of citizens of other countries with which we are familiar. The Government of India was the strongest financial organ in the country, and when the note issue was developed in the way in which it has now been developed, it was perhaps natural that the Government should sponsor the issue, though I am aware that in the past there was a note issue by the banks which, however, was abandoned some considerable time ago. I imagine acceptability of the note during its early days was influenced by the fact that the people understood that the Government stood behind the note. The people of India are conservative like the people of most countries in regard to currency ideas and practice, and no one would wish, by changing the character of the authority sponsoring the note, to do anything which might affect the confidence of the people, because that would have the reverse effect from that which all of us want, which is to encourage the use of paper instruments instead of metal. I can only add on that point that when the banks were amalgamated in 1920-21 the idea before the promoters of the scheme at that time and before the Government of India did not appear to be that the amalgamated bank should become a bank of issue. I state that in a footnote; I quote that from the Government of India. However, ideas change and events have happened since that date so that opinions may now be different. In currency matters, however, conditions do not change very rapidly and I thought it was desirable to give the historical background, so that the Commission might have it present in their minds.

11,122. You say the effect of the change is a matter for careful inquiry from that point of view?—That is a point which I have no doubt the Commission has considered in connection with Indian evidence, that on this point must be more important than mine. Mr. Denning seems confident it will not make any difference, but gives as one of his reasons the peculiar one that " the uneducated portion of the population, if they appreciated the change in the legend of the note, would be quite willing to accept bank notes as the general idea among them is that the Imperial Bank is a Government Bank."

11,123. You would attach some significance to the maintenance of a connection between the note and the authority of the Government of India?—Not necessarily. If I felt satisfied from the evidence I had received in India that an Indian banknote was sure of ready acceptability and would have the confidence of the public, I should see no reason why we should not introduce an Indian banknote issued on the authority and responsibility of the bank.

11,124. In paragraph 2, sub-paragraph (1), you say: " there are decided advantages, subject to proper safeguards, in relieving the Government of India of certain direct responsibilities in respect of currency management." What responsibilities are you referring to there?—I think it is desirable to bring the principal banking authorities into close touch with the responsibilities for exchange and for the note issue.

11,125. Thus relieving the Government of India of certain direct responsibilities?—In so far as the bank shared them, it would to that extent relieve them. In so far as the bank was responsible for the note issue, it would be for the bank to see that the money position was such as to safeguard the exchange value of the currency to which it had put its name. I think it is desirable to promote the association of the bank with the business of currency control, because as banking develops in India the discount policy of the bank ought to play an increasing part in maintaining sound money conditions throughout the country. I think it is desirable as far as possible to divorce these high financial responsibilities from the atmosphere of political controversy which is the right and proper atmosphere for a parliamentary body, and I think it is desirable that the back which bears the responsibility for these currency questions should be broad. All these factors incline one to the view that future policy should aim at an increasing association of the bank with these questions.

11,126. In your answer you have dealt principally with the advantages of the transfer of responsibility. Would you mind giving a more exact definition of the responsibilities which it would be advantageous to transfer?—I contemplate that the association of the Government with the bank should be close; their relation should be intimate. The note issue is a thing which stands in a sense by itself, because the note would, under the conditions we are now contemplating, be a banknote, and the bank's responsibility for the convertibility of the note would be a proper obligation of the issuing authority. The exchange is in a rather different position.

11,127. Elsewhere in your memorandum I understand the opinion expressed to be that the bank should be responsible for the note issue and its internal convertibility, whereas the ultimate responsibility for the maintenance of exchange rests on the Government?—Yes, I have made that suggestion. As I have said, and as you will of course understand, in this memorandum I am dealing with a situation in which the character of the bank would not be materially different from the character it has to-day.

11,128. The direct responsibility you are contemplating here is therefore the transfer of responsibility for the note issue and its internal convertability?—That is so.

11,129. In the next sub-paragraph you say: " The Imperial Bank is not a Central Bank in the sense in which this term is ordinarily understood." You agree that the Imperial Bank possesses some, at any rate, of the characteristics of a central bank, in that it holds the Government balances, that it does rediscount business, and so on, and that its general functions are limited by special provisions?—Yes. In those respects it has certain qualities inherent in central banks, or in most of them. I doubt if its functions are circumscribed to the extent usual with central banks created as such.

11,130. That is what constitutes the principal difference between the Imperial Bank and the typical central bank—the circumstance that it does general commercial business?—That is so. We must, of course, have regard to the general conditions of the country in so far as they affect the question of any

individual bank having the grip on money up and down the country that we are familiar with in countries where the banking organisation is fully developed. It wants something besides a central bank to establish perfect central banking conditions.

11,131. The differences between the conditions of the Imperial Bank and those of a typical central bank are rather emphasised by the number of the former and that side of its business. In paragraph 2 you make the interesting suggestion that the creation of a central bank would presumably involve a splitting of the functions now discharged by the Imperial Bank?—Yes.

11,132. Could you expand that and tell us what species of transaction you had in mind in referring to a splitting of the functions?—I should endeavour to get rid of the first hand relation between the bank and the trader; I should aim at a condition in which the bank was primarily a bankers' bank, and the distribution of credit facilities up and down the country, in so far as it affected the individual, was in the hands of some bank or banks other than the central bank. I do not think it is a suitable thing or a helpful thing for the satisfactory functioning of a central bank that the holder of the ultimate reserves of the country should itself be the vehicle through which credit is directly made available for firms and individuals.

11,133. Do you think it is possible to reconcile the useful functions of a true central bank, which involves the necessity that it should be looked on as a bankers' bank, with other functions which may bring it into competition with other banks?—I think it is undesirable to recognise such a situation as a suitable line of advance. I think it is very desirable, if things are going to be developed in India on the right lines, that the proper scope of a central bank should be clearly defined, and that it should not include functions which are proper to ordinary commercial banks. I think it would be difficult to reconcile the discharge of the two duties by one body with sound conceptions of banking policy.

11,134. As I understand it, that is chiefly because if your central bank is conducting general commercial business in competition with other banks, it can never be regarded by those other banks as their banker freely; there may be suspicion and jealousy which would militate against the efficient working of the system?—Certainly. That is a very important aspect of the matter.

11,135. From another point of view, in your opinion is some such organisation as the Imperial Bank necessary in order properly and rapidly to develop banking facilities in India?—Yes. I think it is most important to preserve in the hands of a bank such as the Imperial Bank the work of pioneering the development of banking up and down the country, as it has done in the past. I would also attach some importance, though I do not know how far it would be essential, to leaving that kind of business in the hands of the people who seem to be very familiar with it, and who have done it very satisfactorily during the last few years. The Imperial Bank has been the spearhead of banking development up and down India, and I do not suppose any other authority in India could approach them from the point of view of inspiring confidence in the potential depositor whose funds we want to attract. The fact that they have been the exclusive bankers of Government in recent years has given them an exceptional cachet in that sort of business.

11,136. I imagine the suggestion you make in this paragraph might be carried out in one of two ways. It would involve the consideration of which was to be the parent, as it were, and which the child?—Yes.

11,137. Have you considered whether it would be better for the Imperial Bank to be continued as the entity to conduct its present commercial business, and that a new reserve bank should be formed, or whether, on the other hand, the Imperial Bank should become the reserve bank, disposing of its ordinary commercial business to some new institution?—I have considered those two alternatives, and I find some difficulty in choosing between them, because it is mainly a question as to which of these two banks should carry the name. You will have two banks, one doing commercial business and the other central banking business, and one will be the Imperial Bank and the other will be something different. It is a question of whether the reserve bank should have the name of the Imperial Bank or whether the commercial bank should have it. With regard to that, there seem to be some advantages on each side, and it would be necessary to choose between them. From the point of view of the general public, who are familiar with the name of the Imperial Bank, and from the point of view of the work the Imperial Bank has done, there would be some obvious advantage in letting the bank which is going to do the commercial business and the pioneer work have the advantage of the name and of the goodwill attaching to that name.

11,138. On the other hand, might it be said that the name of the Imperial Bank already commands great authority, and that as we have already recognised, it is of great importance that the confidence of the public in the note should be encouraged, and therefore if the note is to be a bank note there may be an advantage in having the name of the Imperial Bank on the note?—That is an important consideration which tells in the other direction. Whether it is a decisive point in favour of maintaining the title of "Imperial" for the central bank I am not sure, because if the note is issued by the bank which will have the Government deposits in future, and will be known to have them, that fact ought to give confidence to the user and holder of notes. If people can say, "This note was issued by the people who have the Government of India's balance," it ought to give them confidence. I take it the way a note of that sort would get about would be that it would be first of all circulated in the Presidency towns, where it would, as the people would understand it, be received with confidence, and if they accepted it with confidence it would probably spread gradually throughout the country without any difficulty. I rather feel the note would go all right if it was introduced with care and with proper explanation, and people generally knowing that it was issued by the bank with which the Government deposited its large balances would have confidence in it; this fact ought to give security to the user of the note.

11,139. In dealing with the remainder of the memorandum, I understand you would like us to remember that in future we should have to deal with it on two hypotheses: (*a*) that the Imperial Bank continues with something similar to its present situation, and (*b*) that it may be split up into what we will call a reserve bank and a commercial bank. It will be necessary to ascertain the application of your views to each hypothesis?—Yes, I think that is so.

11,140. In sub-paragraph (3), paragraph 2, you say, acting on the hypothesis you have pointed out that your memorandum is based on, that "owing to the dual character which the Imperial Bank would have if, without any substantial change being made in its functions, it were entrusted with the control of the note issue, it is necessary to ensure that the Government should have an effective voice in regard to the higher financial policy of the Bank." Adopting the other hypothesis that there is a reserve bank formed without commercial functions, what would your view be as to the relation between the Government and the reserve bank?—I think that in any case the relations must be close and intimate, because in the last resort the exchange policy is an act of the Indian Legislature, and the Government are responsible to the Indian Legislature with regard to the execution of the acts of that body. I think, therefore, that whatever is done it would be essential for the Government to keep in close touch with the Bank on matters of high policy.

11,141. We are acquainted with systems under which the Government keeps in close touch with a central bank without any organised connexion. Is

such a method suitable for India, in your opinion?—I am inclined to the view that in the case of India you would want to maintain a closer relationship with the central bank and its governing body than you do under the law in this country. I gather that in this country the independence of the authorities responsible for the Bank of England is greater than the independence of the authorities responsible for the Bank of France, and I incline to the view that in the case of India it would be desirable to aim rather at following the precedent of the Bank of France in that matter than that of the Bank of England.

11,142. In the case of the Bank of England the relations are based primarily, no doubt, on traditional co-operation, but ultimately, perhaps, on the circumstance that the Bank of England is the Government's bank, and finds it necessary to consider the views of its most important customer?—Yes.

11,143. What is the difference in Indian conditions which would lead you to the conclusion that some more organised connexion would be desirable?—I think we have to realise that there is a long tradition behind the Bank of England, whereas in India we are making a break from the past. In such conditions I think we have to realise that a break is being made, and that the arrangements which would be suitable in such a case are not necessarily those which are suitable in a case where there is a long, unbroken tradition prevailing. I think the Bank will be strengthened by the knowledge that the Government is with the Bank. It seems to me to involve a less abrupt change, and not to introduce any disadvantage.

11,144. You deal in your memorandum in some detail with the relations which should, in your opinion, exist between the Government and the Imperial Bank of India on the hypothesis that there is no important change in the functions of the latter. Have you given any consideration to what organised relation you would recommend between the Government and a true reserve bank?—I contemplate that the managing governors should be either appointed by the Government, or that their appointment should have the approval of the Government.

11,145. This is as regards a hypothetical true reserve bank?—Yes. I think the managing governors of the bank should either be appointed by the Government or, what is very much the same thing, with the approval of the Government. I think there should be a right on the part of the Government to make certain nominations to the direction.

11,146. The majority or the minority?—I am putting hypotheses which are not contained in your memorandum; do not let me ask you now if you would like time to consider the point?—I should say a substantial number, but not the majority. At the same time, I think subject to further consideration that Government should have some means of making its will effective in the event of the bank pursuing a course which was regarded as inconsistent with the financial interests of India and its own responsibilities, because it does appear to me that certainly in the case of India it is impossible for the Government to disinterest itself in the question of exchange. I believe there would be greater confidence in the bank on the part of trade generally if it was realised that it was working in close harmony with Government, and that the general policy which it was pursuing accorded with what Government considered to be the interests of India. There are various methods in which such an influence can be given to the Government; it could either take the form of power to issue directions to the managing governors, or of the right to appoint a financial officer of Government to the Board with the right either of suspensory veto or of conveying positive injunctions from the Government. I believe in the initial stages of a change of this kind it would be found to be desirable to strengthen the influence of the Government with the bank rather than diminish it. It is quite conceivable that when the bank has been running a considerable time the Charter may be open to review in some of these respects. By that time one should have had the advantage not only of experience but of being able to test public opinion.

11,147. That view applies to whatever form the Central Bank might have?—I think, generally speaking, it does, though in the case of a real central bank strictly limited in its functions I should, broadly speaking, favour a much freer hand than in the case of a hybrid institution.

(*The witness withdrew.*)

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# THIRTY-FIRST DAY.

## Friday, March 5th, 1926.

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PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.

Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter.
Mr. A. Ayangar. } (*Secretaries.*)

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Mr. Cecil H. Kisch, C.B., re-called and further examined.

11,148. (*Mr. Kisch.*) Supplementing my remarks at the last meeting on the subject of making contraction statutory in the event of reverse drafts being met from the gold standard reserve, I would wish to refer to the possibility of the reserve being handed over to a central bank for administration. In such a case

it would be necessary, I think, to bring the reserve under statutory control, because I take it that it would be unthinkable to entrust a fund, at present 40 millions sterling, to a bank without imposing statutory rules to be obeyed in the handling of the fund. In such a case I consider it would be necessary in the statutory rules to provide for compulsory contraction. If for any reason the banking authorities represented that this contraction threatened disaster to the general money position in India, the Government would be faced with a situation somewhat akin to the suspension of the Bank Act, and I think it would require the sort of attention that a grave emergency of that kind demands. With reference to the questions asked at the last meeting regarding the views of the Fowler Committee, I wish to draw special attention to paragraph 59 of the report, in which the Committee definitely declined to recommend that there should be imposed " a legal obligation on the Government of India to give gold for rupees, or, in other words, to substitute the former for the latter on the demand of the holders. This obligation would impose on the Government of India a liability to find gold at a moment's notice to an amount which cannot be defined beforehand, and the liability is one which, in our opinion, ought not to be accepted." It will be observed that those remarks apply very definitely to the actual operation which in the Indian Finance Department's memoranda is now proposed. I therefore hold that support cannot be found in the Fowler Committee's report for the kind of action which has been recommended in those memoranda. That is why I consider I am justified in holding that the policy proposed in those Indian departmental memoranda is contrary to established custom and, I would now add, contrary to the view of the Fowler Committee. It is, of course, relevant to note that the experience on which the subsequent Committees reported was later and more mature, and in any case I could not accept the view that what was said by the Fowler Committee in 1898 should necessarily be preferred to what was said by other subsequent Committees.

11,149. (*Mr. Preston.*) Would you kindly read Clause 54 of that Report as well?—That is the clause which definitely accepts the idea of coining gold. As I said, I recognise the Fowler Committee leant towards the introduction of a gold coin. My point here has been that they did not contemplate the kind of operation which the Finance Department's memoranda have envisaged.

11,150. (*Chairman.*) I think what Mr. Kisch has just said meets your point, Mr. Preston. The difference which I suppose we must emphasise between what the Fowler Committee was considering and what is considered in the Finance Department's memoranda is perhaps essentially a proposal that rupees should cease to be the legal tender?—Yes, and that the Government should undertake this offer of gold exchange for silver rupees now in the country.

11,151. (*Sir Purshotamdas Thakurdas.*) I take it, Mr. Kisch, you would agree that the Fowler Committee put forward the idea of a gold currency for India to be adopted when circumstances permitted. They suggested it as an ideal towards which the Government should work?—I find it difficult to believe that they had really got a completely thought out scheme, because the view in paragraph 59 which I have just recited is very difficult to square with the suggestion which is thrown out in Paragraph 55—that conceivably at some indefinite date a limitation should be imposed upon the legal tender quality of the rupee. The Government of India have recognised that before that can be done some gold exchange offer is a necessary preliminary, and the Fowler Committee seemed to me, in postponing to an indefinite date the idea of limiting the legal tender quality of the rupee, not to have gone very carefully into the preliminary steps that would be necessary to achieve that end.

11,152. I will read to you one sentence of paragraph 54 of the Fowler Committee's Report: " Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption " Is it wrong to conclude that that was the ideal recommended by the Fowler Committee to be worked up to by the Government of India?—That paragraph which you have recited simply deals with the question of making the sovereign a legal tender and a current coin in India, and there being a free inflow and outflow of gold from India.

11,153. They also say: " We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint "?—That is, I think, included in the idea of a gold coin and a free inflow and outflow of gold.

11,154. In short, then, Mr. Kisch, according to you the position is exactly the same as it was when the Fowler Committee examined the position in India in 1899. It has not changed at all. That, I take it, is your conclusion?—Will you kindly repeat your question?

11,155. The conditions to-day are the same as they were when the Fowler Committee investigated the whole question, and you contend there has been no further progress indicating that India needs gold currency, or that efforts should be made to introduce gold currency in India?—I see no reason to hold that the circumstances of India require the introduction of a gold circulation to give the country a thoroughly sound system.

11,156. You say that in spite of the large imports of gold into India for private account which there have been since the Fowler Committee's Report?—I endeavoured last time to draw a distinction between the social demand of India for gold and the currency demand for gold. I apprehend that the introduction of a gold circulation would involve an addition to the gold intake of India over and above what she would take if the social demand alone had to be considered. I was asked whether any other country had unlimited legal tender silver currency, and I referred to the Straits Settlements. I think I might have added the Philippines at the time when the Currency Reform was introduced there in the early years of this century. Then there was a point which I was asked about the utility of a gold coin to Government in certain emergencies.

11,157. (*Chairman.*) In substitution for a silver rupee currency?—If there was a strain on silver. I find when that sort of situation arose in the Straits Settlements the step was taken of extending the quality of unlimited legal tender to British gold coin as one of the measures for alleviating the strain on silver. That was in 1906.

11,158. Is there any record of how much went into circulation?—That is not stated. Also the possibility that it might be of some help to the Government in meeting demands for the convertibility of the note for internal purposes. That would be one aspect of the alleviation in addition to the demand for new currency. On the point of the strain on silver, I suggest that the Commission, if they attach weight to the risk of silver rising to a price at which the stabilised rupee will be threatened with the melting pot, ought to consider the possible coinage of half-rupee pieces and two-rupee pieces of a lower proportional silver content than the one-rupee piece. There would apparently be no reason why such coins should not circulate. They would be tokens, as would be the one rupee, though one would be proportionately a more valuable token than the others; but as they would all be tokens they ought all to circulate in the same way as the old British silver and the new British silver, which has a lower proportional silver content, and both of which circulate freely in this country. Further, I do not know whether things have not

advanced sufficiently far in India now as to reduce the danger, which was present at the time of the war, when the circumstances were special, of inconvertibility. I do not know whether that danger, in the event of such an emergency happening again, would be quite so serious in the future. It must be remembered that this particular stress was at its height about March, 1918, when the final German offensive was starting. I do not know whether the risk which made it absolutely necessary to prohibit exports of silver then would be so fatal to allowing those exports in the future. I must not be regarded as advocating this point, because I have not had the opportunity of canvassing opinion in India. I suggest that, if you thought fit to recommend the coinage of silver half-rupees or two-rupee pieces of lower proportional silver content, and they were accepted, it might also be proper for the authorities to consider the question as to whether, without undertaking a vast re-coinage in the sense of recalling rupees, it would be possible (because India has now advanced in a number of ways, and confidence presumably is much stronger than it was at the time of the crisis of the war) to put into circulation a one-rupee piece of a lower proportional silver content to the present one-rupee piece in the event of a threat to the existing silver circulation. As I say, they would both be token coins, and, as far as theory goes, there would be no reason why they should not circulate as money. So far as the hoarding of rupees went, people would prefer to hoard the higher valued rupee, but the new rupee would then circulate as money, which is the particular object which we have in view. I only mention these possibilities because I do think it is important that one should be ready with a reply to the question as to what would happen if the price of silver were to go to 48d. I think it is a highly improbable event—a view which I have endeavoured to justify in previous evidence—but it seems to me that some of these possibilities require to be carefully explored in case of any future emergency.

11,159. That is your own view—that whatever you enact about the rupee, owing to its long history and its traditional position, the people of India will continue to look upon it as the standard unit of currency?—Yes.

11,160. That being so, must not weight be attached to the view that any alteration in the intrinsic value of such a standard unit may affect the general confidence in the currency of the country?—I think one must attach importance to it; but in other countries, such as the Straits Settlements, there have been alterations in the character of the standard coin. No doubt the authorities would be reluctant to undertake them, but that is one of the natural methods of dealing with this particular emergency. It is a method which is adopted by countries which have progressed a considerable distance in currency lore; and as India progresses, and her banking facilities develop, I only suggest that the arguments directed against it in the past may in the future come to have a diminishing force.

11,161. As regards those arguments, is it possible to distinguish between the two-rupee and the half-rupee and the rupee? Suppose it be essential to maintain the confidence of the people in the legitimacy of the rupee, and supposing that they see that the big brother, the two-rupee, and the little brother, the half-rupee, are illegitimate, might not that affect their confidence in the legitimacy of the third member of the family?—I do not think I should necessarily draw that conclusion. There was some nervousness at the time of introducing the paper rupee, but it was issued and it became a very popular thing. That seems to me, in a sense, to be as signal an innovation as the introduction of less fine half-brothers.

11,162. It might be said that the confidence in the acceptability of the rupee note was based upon its convertibility into the silver rupee of familiar fineness?—That is so.

11,163. (*Sir Purshotamdas Thakurdas.*) You think it would be a feasible possibility for this Commission to recommend the depreciation of the rupee?—I think the Commission ought to consider the matter within the limitations and subject to the qualifications I have suggested. It was considered very carefully at the time of the Babington-Smith Committee, and evidence at that time was very strongly against it. I am only suggesting that as India progresses in the understanding of currency matters, and particularly as banking facilities develop and people are less inclined to hoard the rupee for its own sake, it ought not necessarily to be assumed that what was held to be conclusive in 1919 will necessarily be conclusive for all time. For example, I feel quite confident that a proposal to limit the legal tender quality of the rupee would have been thoroughly condemned root and branch by the authorities in the past; but the idea of limiting its legal tender quality seems to me to cut much more at the root of the rupee than the introduction of a rupee of lower proportional silver content, because in the one case the purchasing power of the unit is not going to be affected.

11,164. You do not think it is likely completely to frighten and exasperate the Indian public, and to shake their confidence in the currency of the country?—I do not suggest it should be done in a hurry. I suggested you should try the half-rupee, and possibly the two-rupee, first; but I think if the authorities understand that the rupee is representative of gold, which is what we intend it to be, and that its purchasing power is secured, those who understand the question would realise there was nothing, in theory, against the introduction of a rupee of a lower fineness. Also you would be able to point to the fact of the same thing having been done in other countries. I think if they gave their minds to it they would be able to secure its ready acceptance.

11,165. Those who give their mind to it might accept it, but what about those who cannot give their mind to it. Do not you think their faith in the currency would be completely destroyed? To-day the rupee is supposed to be worth nine annas. Even if this depreciated it only by another sixteenth, making it worth eight annas, do you not think it most undesirable?—I am not suggesting it should be done while the price of silver remains in its present neighbourhood. If the price of silver goes higher, you may be able to reduce its silver content to some extent without necessarily reducing the gold value of the metal it contains.

11,166. When the price of silver later on goes down, would you call back those rupees and substitute the fuller value coins?—I should be reluctant to do it, because having made a move in a sound direction, and if a new rupee had been accepted in that form, I shoud try to maintain the ground which I had won, if I could.

11,167. You do not think that would have a bad political effect in India?—I should have great condence in the guidance that would be given by those people who know. If those people who knew stressed the point that such a step did not run counter to sound currency theory, that it had been done in other countries with success, and that India should be capable of doing what other countries do, I think trouble might be avoided. I am not expressing confident or strong views. I think it is conceivable that the reasons which in the past have been held as decisive against such a thing might not necessarily apply for all time. I do not go further than that. I am rather inclined to think that the idea has been too lightly dismissed without sufficient argument being given against it.

11,168. You would not be prepared to say that, looking at the political atmosphere now prevalent in India and which is likely to be prevalent for the next few years, this is an expedient which should never be tried?—I would not use the word "never"

in regard to such a matter. But you will understand that I have only referred to the point as a matter which might be carefully examined in the unlikely event of a silver crisis such as occurred in 1918.

11,169. (*Sir Maneckji Dadabhoy.*) I want to deal with your suggestion that the Commission should consider the question of a depreciated rupee?—I do not say they should recommend it, but just consider it.

11,170. Have you considered the point that in the Native States of India there are rupee coins bearing the stamp of the Native States—like Baroda and other States. How will our depreciated rupee—the British token—suffer in comparison with large numbers of rupees of that denomination containing the same weight in the Native States?—We should ourselves have in British India, of course, a very large number of the higher silver content rupees, because I am not contemplating a general recall of rupees. There might be a re-coinage as rupees come into the Government, as opportunities offer. I venture to suggest that the kind of circumstances which might make this question an active one in India might also be affecting the Indian States to which you refer, because they also would be interested in safeguarding their silver currency. I should think it possible that if the authorities in British India considered that this step was a right one, conceivably the Indian States who would be suffering from the same influence—a threatening big rise in silver, might feel inclined to take the same step. It is a matter in regard to which there will be a good deal of common interest involved, and one would be entitled to expect that they would be ready to work in the same direction. As I envisage the position, their currencies would also be under the threat of a large rise in the price of silver.

11,171. How would it affect the silver hoards?—I do not think it would affect the silver hoards. As compared with the rupee of lower fineness these silver hoards would be naturally retained, because the silver content of those rupees would be of higher value than the indicated new rupees. It might, on the other hand, be advantageous in certain circumstances for the holders of these silver hoards to export their silver as bullion.

11,172. Would it not be an act of bad faith in respect of these parties who have accumulated these rupees?—I do not think so, because their silver would command the world's price of silver if they chose to part with it, and would also have the quality of legal tender and the security in regard to gold exchange which it is proposed that the Government should afford to its currency.

11,173. In answer to a previous question you stated that much would depend on the guidance to be given by those people who know about it. To what people do you refer?—I refer, for example, to the representatives of India in the Indian Assemblies, where the question would have to come up in the form of a Bill to be debated. I think there is tremendous scope for guiding the people who do not know in the attitude adopted in debates by the representatives of India who do know.

11,174. Both the Chamberlain and the Babington-Smith Committees deprecated any such practice?—I know they did.

11,175. How have circumstances altered since 1919 to justify us in reconsidering this question? Have any fresh materials come before us to make us reconsider it?—I think the circumstances of the war introduced very peculiar and exceptional conditions There was great nervousness about that time, and the introduction of such a step of this kind at such a time as that would have been fraught with peculiar risks; but things have settled down much more, and are quite different now from what they were during the war. The experience and understanding by India of this kind of question is continually increasing. I only suggest that what was held to be decisive in the past may not necessarily always be decisive, as India's knowledge and understanding progresses. That is the difference.

11,176. But in the matter of currency we have to take into consideration, and keep in mind, the political temper of the people. Do you think in the present political state of India with Government measures and many other things being misrepresented, and there being a constant agitation against Government, it would be discreet to undertake such a violent change?—I have not suggested it should be done straight away. I suggest it might be well to start with coins whose character is less sacrosanct than that of the rupee, even, in one case, with the possible striking of a new coin. I should have to be guided very largely by the success or failure of that preliminary trial. I should judge as to whether further steps were desirable or not in the light of how my first effort succeeded. It will be appreciated that in this discussion I have only been referring to possible measures that might be considered in the event of a recurrence of a silver crisis. I am not making any definite proposal.

11,177. (*Chairman*): Continuing with your Memorandum No. 4, and taking paragraph 3, which deals with the relations between the Government and the Imperial Bank, you say in the second sub-paragraph that the suspensory veto of the Government directors should continue and, lower down, you say that the Government should be entitled to issue instructions to the Bank in matters of Note issue. Would such exceptional powers as these leave any real responsibility to the Bank at all? Would not they have the effect of making the real responsibility revert to the Government, and would not that sacrifice some of the principal advantages to be obtained by a transfer of these matters to the Bank?—You will appreciate that these observations are based on the presumption, which was implicit in the Indian Finance Department's Memoranda, that the character of the Imperial Bank would continue much the same as at present; in other words, it would be very largely a commercial bank. In such a case I consider it will be necessary to preserve the amplest powers for Government to make its will effective.

11,178. Supposing a true reserve bank were to be founded, would you still think it necessary to continue the suspensory veto of Government directors and the power of the Government to issue instructions as regards the Note issue?—In such a case I should regard it as right to entrust the Bank with a much wider degree of responsibility. As I said on the last occasion, I consider that in any event, in the circumstances of India, close association between the Bank and the Government would be necessary, but I should hope that in such a situation the Bank would do the work and the Government would be able to look on with tacit approval. If, on the other hand, the Bank were to do something which the Government considered contrary to the supreme financial interests of India, which might jeopardise the exchange or the security of its balances, I consider it would be desirable that the Government should have some right of intervention. I apprehend that in practice it would practically never have to exercise its right.

11,179. You agree that the principal advantages in this connection of a transfer of responsibility is to rid the Government of responsibilities which are not commonly regarded as appropriate for Government Departments, and to inspire confidence in the control of the currency issue by its being conducted by business men of experience rather than by officials who, rightly or wrongly, are commonly regarded as not possessing the necessary experience?—Yes; I think that is a very important advantage; and the other advantage which I think is important is to try and take these commercial and financial interests out of the general purview of a political assembly,

because they are not suitable matters for general controversy in India any more than they are in this country.

11,180. It would, we may agree, perhaps sacrifice in a large measure those advantages if by any provisions practical responsibility and a proper freedom of action were not reserved to the Central Bank?—To that extent it would.

11,181. In the next sub-paragraph you say, "It might help the interests of Government if contact were established between the Secretary of State in Council and the Advisory Committee." If by contact is meant anything in the nature of a practical power of intervention, might it not be said that that would have the undesirable result of giving the Bank, in the exercise of its responsibility, two masters who are not in very immediate contact in space or time, instead of one?—One of the questions in which India and the rest of the world is immensely interested in the future is the gold question, and the places where views on the gold question will be most widely obtained, and the places which will play the most important part in the gold question in the future, are presumably the great gold centres. India is entitled to get her view expressed if any question affecting her interests arises at any time in those gold centres. It is obvious that some effective means of expressing those views in London should be available.

11,182. What do you mean by "contact" in this connection?—I should mean that a representative or representatives of the Secretary of State should attend the Advisory Committee of the Bank which has now been established and which would in the future, under these conditions, have increased importance, in order that the Government of India, which cannot in the circumstances of India divorce itself from these important interests, should be effectively represented there. There are some obvious instances where the matter might derive importance. For instance, the question of the export of gold to India for trade purposes as distinct from the social purposes of India might arise. It is clear that the amount of gold movement to India is influenced by the rate of exchange at which the Central Bank, or the Government as the case might be, is doing business. That might raise important considerations on which it is desirable that India should be in a position to make her view felt in an effective way. It is clear that the Government of India themselves are not on the spot. The supreme executive of the Government of India is the Secretary of State responsible to Parliament. If the Government of India have views to represent on any of these questions, the natural vehicle under the existing constitution would be the Secretary of State.

11,183. Are you suggesting that the representative of the Secretary of State should have any formal power, or that he should attend in an advisory capacity?—I think he should attend in an advisory and watching capacity. I do not contemplate that he should have any formal powers. I think his presence there, vested, as he would be, with the authority of the Secretary of State, would be an important factor.

11,184. I will now go on to your next paragraph, paragraph 4. I am dealing here with the arrangements as regards remittance business. You deal here with some preliminary questions. The matter is dealt with more fully in a subsequent Memorandum. You say, "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind." Would you agree that, if the Bank is acting in the transaction of remittance business for Government, some practical arrangement is necessary in order to enable the Bank to make provision for the Government's requirements?—There would obviously have to be close co-operation between the Secretary of State—the most important remitter—and the authorities responsible for the actual carrying out of the business; but what I have ventured to criticise rather strongly is the suggestion that Government funds should be deposited at a bank and that the depositor of those funds should not be free in principle to utilise those funds, which he has deposited at a bank, as he deems expedient from time to time in the light of ever-changing circumstances. I think it is contrary to the general conception of the relation between banker and customer that the customer's liberty in the utilisation of his funds should be circumscribed in that way. There are some practical reasons which lead one to that view. It is not possible for the Secretary of State to lay down fixed programmes of the kind suggested, nor would it be consistent with the interests of the Indian taxpayer that he should attempt to do so. The interests of the Indian taxpayer require that the remittances should be effected according as the market conditions indicate. The interests of the Secretary of State require that if any unexpected demand arises he should be able to take such steps as may be required to deal with it. In fact, I regard it as contrary to the general conception that prevails as between banker and customer that the customer should have his resources in a certain sense immobilised—because that is what it means.

11,185. I imagine, although ignorant, that under present conditions the Secretary of State does not conduct his remittance business entirely from hand to mouth, but foresees his requirements for a certain period and lays out for himself a programme in advance. Is there any difficulty, instead of carrying out that programme himself, in his communicating what his intended programme is to the Bank which is conducting the business for him as agent?—The Secretary of State at present has to see that by some means or other funds are always at his disposal for meeting his commitments, but he does not, say, at the opening of the financial year, make any attempt to space out his remittances by a settled programme over prolonged periods. He has other means of raising money in London beyond remittances from India if circumstances should prove adverse. I apprehend that there is nothing inconsistent with the idea of employing a bank to carry out the remittances, and the idea of the authority, whose funds are in rupees in India, stating, with reference to the ruling conditions of the market what amount of those rupee funds he considers should be converted into sterling funds week by week as the situation develops. That is the practice which has prevailed for an immemorial period, and I do not see that there is any valid reason for disturbing it; nor do I think there would be any inconvenience from the banker's point of view in working along those lines. There would in substance be no change from what has happened in the past, and there would be the avoidance of what I regard as a serious objection, and one which I feel ought to be very carefully considered, namely, of a customer being asked, practically speaking, to immobilise his funds to a substantial extent.

11,186. Will you please contemplate for a moment a state of affairs under which the Bank conducts the remittance business as agent for the Government. Do you consider it should still be the responsibility of the Secretary of State to prescribe when the remittance can be conducted to the greatest advantage of the Indian taxpayer, or do you think the responsibility of deciding the moment at which to buy exchange should become the responsibility of the Bank?—I consider that the Government, who is responsible to the Indian taxpayer for the economical use of money raised from the taxpayer, should have the deciding voice as to when remittances take place, and the amount for which they take place from time to time. Of course, he would act in consultation with the Bank, but I think, so far as the decision is concerned, in such a case it should obviously rest with the Government, because they are the Government funds

which are being remitted; it is the taxpayers' money which is being spent, and they are the Government commitments which are to be met. I think all those reasons indicate that the decision should lie with the Government, though they would clearly be acting foolishly, ordinarily, if they neglected to accept the advice of their financial experts.

11,187. The question is one as to the moment at which the remittance can be made most prudently from the point of view of the interests of the Indian customer. Is that a decision which is better made by the banker or by the customer?—I think there are other considerations which have to be taken into account. One is the responsibility of the party who has the commitments to meet in this country. Those commitments are the Secretary of State's, and it is quite conceivable that in the case where arguments might be evenly balanced he may be unwilling to take a risk which possibly a banker might wish to take purely from a remittance point of view. He might take the view that he cannot be left short in these conditions and that the money should be remitted; whereas a Bank might say: "Our view is you may be able to do it better later on." As the commitments are the Secretary of State's—that is, the Government's—I think he must have the final deciding voice as to whether he should take one line or another in a situation which admittedly would be obscure.

11,188. But would not the responsibility of the Secretary of State be discharged by employing, to conduct remittance business and to form decisions as to the moment for the actual transfers, that agent who was best qualified to form an opinion on the day-to-day policy of remittance?—Normally that might be so, but the Secretary of State would have no defence if, owing to his having left the business in the hands of a banker, the money was not available at the time required. The obligation is his, and he is responsible for having the money at hand. If the Bank took a particular view, and the view proved to be wrong, and the remittances could not be made, and money had to be raised in London by more expensive methods, I think the Secretary of State and the Government of India would be very properly castigated by their critics in the Indian Legislative Assembly in a case of that kind.

11,189. You say, "It appears impossible for the Secretary of State, who has constitutional and statutory responsibilities, to be satisfied with an obligation undertaken by a Bank, however eminent, to keep him supplied with funds." Why is that so? Why should it be impossible, if the Bank has powers precisely the same of supplying the funds as the Secretary of State has always had himself?—The reason I suggest is that a Bank might take a view and act on it, which might not be justified by the result. In that case they would have to come to the Government of India and say, "We took such-and-such a view in anticipation of such-and such a course occurring. It has not occurred. We are very sorry. We do not see our way to laying down this fund now to the extent postulated, and we recommend therefore that you should initiate steps for obtaining money in London by some other means open to you." I suggest that that is not a possible position for a great Government to allow itself to get into.

11,190. The Bank may make a mistake, but so may the Secretary of State?—But his mistake would be on the side of caution.

11,191. If a mistake is to be made, is it not very much better that the Secretary of State should not make the mistake himself, but that it should be made by the Bank? The Secretary of State would then be able to say, "I have done my best by entrusting this difficult business to the authority with the greatest expert knowledge best qualified to undertake the business"?—I think the answer to that would be that the most important consideration is the punctual discharge of your obligations, and the taking of prudent steps for that purpose. I think what would happen would be that people would say that the Bank, in effect, took a view of exchange which had produced embarrassment for the Government, and the Government's business is not so much to take views on exchange, as to secure that it has the funds to meet its obligations. I think a Bank necessarily approaches this kind of question from a somewhat different point of view from the Government. Let me take an analogous case; the position is not absolutely analogous, because we have not got the same sort of conditions in India as in this country. The action of the British Government in laying down dollars for the purpose of meeting the American debt would be very closely watched and supervised by the Treasury, and if they considered a moment inopportune they would have the right, if they wished, to say to their agents, "No, we will not remit at this time; we will wait till a later date." They know when they have to meet the claim, and I think the party that has to pay the debt is the party to decide how the funds are to be acquired in a particular centre for the purpose of meeting the debt.

11,192. But to secure that, do you consider that more is necessary than the co-operation and close relations which must naturally be expected to exist between the Bank and the Secretary of State?—I think the close co-operation is essential, and that it would always be forthcoming, but I think the responsibility ought to be definitely placed on one pair of shoulders or the other, and my view is that the responsibility for securing remittances from week to week, as the case may be, ought to be vested definitely in the Secretary of State. He has statutory liabilities in this country to the holders of Indian Government debt, which has been raised under the authority of Parliament and which securities enjoy Trustee status. He is charged with the responsibilities of the supreme executive in India under the present constitution, and so long as those considerations remain, I consider he would rightly insist in having a decisive voice in the matter to which we are referring.

11,193. Then, to test that opinion, we must contemplate this possibility—that there is a difference of opinion between the Bank and the Secretary of State as to the policy of remittance, and that the Secretary of State's opinion prevails. It turns out to be wrong; a mistake has been made. Would it not be very much more awkward for the Secretary of State, in the light of public opinion, if it was said to him, "Why did not you on this occasion accept the advice of your expert advisers at the Bank"? Would it not be much better that the Secretary of State should be able to say, "A mistake has been made by the highest expert in closest touch with the business, and that relieves me of blame"?—I suggest that would not be the case. Governments habitually are blamed, and are used to being blamed for whatever they do. He would in any case have secured that the funds would have been rendered available for meeting his particular commitments. That seems to me to be a dominant consideration—that the funds should be there where wanted. If he is blamed, it is part of the day's work. These considerations are so important that I do not think he could cover himself by sheltering behind the Bank.

11,194. You would not attach any importance to the consideration that he might be even more blamed in taking the responsibility, the result having been unfortunate, for not having taken expert advice?—I do not think the blame he would encounter in that case would be more than a fair and proper risk for Government to take. I think he would be capable of defending his position absolutely.

11,195. Passing on to paragraph 5 we come to another aspect. You say, "There appear to be strong arguments in support of the view that the gold standard reserve should be maintained as a separate fund in the hands of Government." That rather relates to something which you were saying

at the beginning of our session to-day. I should like to ask whether you have an opinion to express as to whether these arguments should prevail and the gold standard reserve should not be maintained as a separate fund in the hands of the Government, or whether the arguments on the other side are the stronger?—My view of that question hinges on the character which is to be assumed by the new central banking authority. In this Memorandum I endeavoured to set forth the length to which I thought it was prudent to go in present conditions if the Imperial Bank continued in its present character. If, on the other hand, a genuine central banking institution, strictly limited in its functions, is created, I apprehend that the proper course would be to make over the assets of the gold standard reserve to that Bank for administration.

11,196. It would clear the ground very much if we know whether it is your opinion that if a true central bank were formed the responsibilities of exchange would then become the responsibility of the Bank?—Yes, but I have all through insisted, and I cannot stress the point too strongly, that I consider it is highly desirable that Government should be closely associated with the Bank in these higher responsibilities and functions. That is a point which bears on the question on which you were touching a short time ago, of the contact between the Secretary of State of India in Council and the Advisory Committee of the Bank in London, because it is clear that the exchange side of the business is very largely focused in that centre.

11,197. To have your complete opinion on this point, I will put it rather in this way—that if the true central bank be established, in your view, the responsibility of the maintenance of exchange should then be that of the true central bank, but that the control of the Government of India over the policy of that bank in regard to exchange should be safeguarded?—Yes. I think it desirous that it should be safeguarded both in India and in this country.

11,198. Supposing a true central bank were established, and the gold standard reserve is passed over to that Bank, together with the responsibility of the maintenance of exchange. Is it your opinion that the paper currency reserve and the gold standard reserve should be amalgamated?—In the first instance I should like to express the view that if the assets of the gold standard reserve are made over to the administration of a new central bank, the reserve should be brought under statutory management. I do not think it would be suitable to hand over what is in effect a large trust fund without statutory provision. I think that would be contrary to accepted ideas and sound practice. When it comes to amalgamation, I am brought up against certain difficulties which I think want discussion. Take one case. It is obvious that custom, as regards note reserves, postulates a balance sheet —assets on one side and liabilities on the other side. If I am asked whether I desiderate amalgamation of the reserves, I must, with your permission, ask how you make up your balance sheet. You have added 53 crores (I take the figure with which we are familiar) of assets on one side. I would ask enlightenment as to how you propose to balance the account on the other.

11,199. As a basis for discussion I think we might most usefully take the scheme developed in one of the Finance Department's Memoranda, in which the assets of the two reserves are pooled and there is brought in a fresh liability, which is fixed summarily at 50 crores, in respect of the contractibility of the silver rupee circulation?—That seems to me to be open to certain criticisms which I would like to develop. The first criticism is that the balancing figure on the liability side is purely arbitrary and obviously fictitious, because it does not bear any precise relation to the actual rupees outstanding or the liability there may be on account of them. It is simply an invented figure to produce an arithmetical total.

11,200. I confine myself to the figures arrived at as the best estimate that could be made of the maximum extent to which it is practically possible to consider that the silver rupee circulation might be contracted?—Which happens, incidentally, to be the identical figure at which the assets in the reserves are held to-day, and which is going into the asset side, we are assuming, as an additional asset. The assets in the reserve to-day are 53 crores, and the figure that is now proposed——

11,201. What assets?—The assets held in the gold standard reserve to-day are 53 crores, and what is proposed is merely to put on to the other side of the ledger an item of the same amount. It seems to me that is a misleading and artificial way of dealing with the thing. The figure is admittedly conjectural and bears no relation to the actual rupees outstanding, but is the opinion of individauls as to what might or might not be the maximum possible return under certain conditions. I think it is objectionable, because the Note liability is a known quantity. You have at the present moment a known liability in respect of your Note, and you have on the assets' side known assets against a known liability. The suggestion now is that a single account should be produced in which one known asset should be added to another known asset, and that a known liability in respect of the Note on the other side should be added to a hypothetical liability on the other which is merely adopted for balancing purposes. I think that is an artificial and misleading method of representing the position, and I think it is undesirable, because it is important that the Note account should be a genuine calculation. It does not appear to me to offer any particular advantage.

11,202. Will you tell me whether you are criticising the figure of 50 crores, or whether you are criticising the basis of the new constitution; in other words, whether you agree or not that what has to be done when you are reconstituting the reserves on this basis is to bring in as a liability upon the other side some estimate of what the contractibility of the silver rupee circulation is?—I am going to suggest at a later stage that there is no practical advantage in bringing in this hypothetical liability. It is quite arbitrary. It adds nothing to the practical benefit of the scheme. What is really a matter of consequence is you have 50 crores or 53 crores, as the case may be, of real solid assets which may be used for the purpose of contraction. Whether you choose to put in a balancing figure against that or not does not in any way strengthen your position and seems to be a matter of no particular consequence. I think it is desirable that the Note issue account should be kept as a Note issue account which is what it is, and which is familiar in all other countries. We have to recognise the fact that the position of India in this matter is different from that of most other countries in so far as it has a Note issue and also the unlimited legal tender silver rupee. Therefore it is desirable in the case of India to keep, so far as you can, on lines which are familiar elsewhere, namely, of keeping paper currency accounts as paper currency accounts, and not mixing them up with other things. I have a further point to mention on this matter.

11,203. It is said that the true status of the silver rupee is that of a Note printed on silver. If that be so, is there any reason for dealing with it, in the reconstitution of the reserve, in a different manner from the paper Note?—The silver rupee is not exactly in that position. It is a rough analogy which covers part of the ground. The silver rupee is the recognised method of meeting the conversion of the Note into a metallic legal tender, and to that extent the silver rupee is not exactly in the position of another Note. As I said in answer to a question by

Sir Reginald Mant the other day, it is a unit with certain qualities of its own, and it is not exactly in the position of a paper Note. If it was so, the point to which importance has been attached in the past—that the paper Note should be convertible into it, would be relatively insignificant; whereas we know it has loomed very largely in the currency development of India. That is only another reason which bears out the view that the silver rupee and the Note have differences, and it also brings out the point of view that the currency Note reserve, though admittedly it can be and is rightly used in connection with the maintenance of the external exchange, also serves the purpose of providing for the internal convertibility of the rupee Notes into coin. The gold standard reserve has never been concerned with the internal convertibility of the Note, and to that extent the two reserves, though their functions overlap, have not indentical functions.

11,204. Let me ask you, then, on the assumption that the true central bank is founded, and the gold standard reserve is transferred to the true central bank, what would be your own proposals as to the basis of the constitution of the new reserves and their relation to the circulation?—May I say one thing before I answer that question. Another point against the formal amalgamation of the two reserves is worth mentioning I think. It is contemplated that the Note should become the bank's liability—that it should be a Note issued by the bank and bearing the signature of the responsible officer of the bank. There cannot be any question that the reserve attaching to the Note issue must be the bank's reserve, and managed by them entirely; but another reason against the formal amalgamation of the two reserves by means of hypothetical arithmetic lies in the fact that there cannot be any question of turning the rupee into the bank's rupee, and I see strong objections in principle to treating the rupee in substance as though it were the bank's rupee, which is in effect done if you put a hypothetical figure for rupees and add it to the figure for Notes, and publish one consolidated statement. The rupee is the rupee that has been issued by the Government and which bears the King's head. In so far as there is any liability attaching to the rupee, that liability is not altogether the same in regard to the party which has to discharge it as the liability attaching to a Note issued by a particular institution and bearing the signature of its responsible officials. That brings me to the point that there is no particular reason or advantage to be derived from any attempt at formal amalgamation in the sense of producing a balance sheet with identical totals on either side. I have said that I consider the gold standard reserve should, in the event of there being a genuine central bank, be handed over to the bank for administration; but I suggest there is nothing in theory or principle against the view that the gold standard reserve should be held and exhibited as a separate reserve. I see no advantage, as I say, in formal amalgamation in the sense that we have been discussing it, involving as I say, the introduction of hypothetical figures and mixing things which are not *in pari materia*.

11,205. To put my last question in another form if that be so—if it be held that the central bank has an independent reserve—what arrangement do you suggest to secure the automatic contractibility of the Indian currency, when the gold standard reserve is being used?—I suggest in such a case that the statutory provision laid down should contain rules which should have that effect. Either they would be formally embodied in a statute, or the statute would authorise the Government to make such rules as are deemed proper, and one of the rules made should provide for this. There are various ways in which the thing could be done.

11,206. Can you give us any idea of the mechanism which could be adopted for that purpose in the statute?—Without attempting the draughtsmanship, I think you would have to provide that when sterling or gold assets were withdrawn from the reserve there should be a corresponding lock-up of local currency in India, and you would provide that the Auditor-General, who is the responsible official, should be charged with the duty of seeing that that was done and animadverting on it if it was not done. Some arrangement of that sort would be required I think. In these particular cases we should contemplate that the currency which would be locked up would be rupee currency, and I do not think there would be any difficulty in providing that some authority should be responsible for certifying that the rules made by the Indian Legislature in regard to this matter were being duly enforced. I suggest in the case of India that the certificate would be that of the Auditor-General.

11,207. So that the basic provision as regards the embodiment of the gold standard reserve would be to secure the withdrawal from circulation of any currency received in India in respect of which the assets of the gold standard reserve were released elsewhere?—Certainly; that is how I should see it.

11,208. And that would be in operation concurrently with more normal provisions as regards the basis of the fiduciary portion of the paper currency reserve?—Yes.

11,209. Do you see any difficulty in the concurrent operation of the two methods?—No.

11,210. In controlling the convenient and elastic working of the currency system?—No. I see no difficulty in the two existing. No doubt the normal practice would be for the paper currency reserve as it is to be utilised in the first instance; but actually the utilisation of either reserve involves, in one case, the locking up of rupees, and, in the other case, the destruction of Notes, so affecting contraction. I do not see any reason for apprehending there will be any difficulty whatever about it.

11,211. Are you contemplating that the assets of the gold standard reserve will be released against silver rupees?—When first drafts are sold you may probably get a reflux of rupees to the bank. Those rupees if the gold standard reserve was being employed will presumably be set aside in a vault in India to the credit of the gold standard reserve in India. On the other hand they could be utilised in the paper currency reserve to take the place of sterling assets withdrawn, and to that extent the circulation in India would have been reduced. Rupees would have been taken off the market in either case. I think there would be certain awkwardness in India in holding Government notes in the gold standard reserve in that country. I do not think it would be easily intelligible to public opinion. Of course that also is a method of reducing the market supply of cash. I think it more natural in a case of that sort that the reserve should be held in the form of silver rupees, though we should recognise that the form of holding was merely temporary, and when the trend of trade set in the opposite direction those rupees would again be converted under our exchange system into gold assets. We are trying here to devise a system which is easily intelligible and simple.

11,212. With regard to intelligibility and simplicity, would there not be a good deal to be said for a single reserve working upon the well recognised mechanism upon which reserves are worked in other systems?—I think you have to have regard to the subject matter with which you are dealing. If you are dealing with a somewhat unusual subject matter you cannot expect to produce precisely the same exhibition of your transactions as that with which we are conversant in other countries where the subject matter is rather different. Though I regard simplicity and intelligibility as good things, I think you must not use them to obscure essential factors, and I think it would be a contradiction of simplicity if you have to manufacture an account—practically speaking you may say if you have to fake an account—because the introduction of any hypothetical

figure, a purely balancing figure, can only be characterised as something of a fake.

11,213. In the maintenance of two reserves does it not appear that there are two different purposes to be served? Is not the truer aspect of the currency problem of India, or may it not be said that the truer aspect is, that there is only one purpose to be served?—It is impossible to distinguish in fact between the purpose of securing the convertibility of the note and the purpose of maintaining the exchange, and that has been illustrated in the past by the impossibility of maintaining distinct the functions of the paper currency reserve and gold standard reserve. The paper currency reserve has had to be used for currency and exchange, and tho gold standard reserve for maintaining the convertibility of the note?—Into foreign exchange.

11,214. Yes, into foreign exchange?—But there is the further factor of the convertibility of the note into internal metallic currency which gives an additional and a special character to the paper currency reserve. So long as the rupee is unlimited legal tender—and this note contemplates the maintaining of that situation—the possibility of your having to give metallic coin in exchange for paper for internal purposes is still a consideration of importance. And to that extent the functions of the two reserves are not identical.

11,215. Would it make any difference to your view, supposing the convertibility of the note into silver rupees were not maintained?—I still see objections to manufacturing a balance sheet, and I do not see the real advantage. We cannot of course take commercial concerns as presenting an analogy, but one is familiar with accounts of big corporations which have a general reserve fund and a special reserve fund. They maintain various reserve funds, though they all no doubt in the end are intended to support the stability of the concern in question. I do not see any serious objection to having the usual note issue account with which one is familiar in all countries, and with which India has been familiar ever since they have had notes, and the maintenance of a special reserve—a gold standard reserve, or whatever other name you like to call it by—as a separate entity.

11,216. Your fundamental problem must be, as in all such cases, to provide a reserve against the possible contractibility of your currency. Could it be said that you are manufacturing a balance sheet when you make an effort to estimate the contractibility, even though your estimate is admittedly based as to its figures upon no scientific or statistical calculation?—Well, if one was asked whether that is the real genesis of the figure I should feel much doubt in accepting the view that it has been arrived at in that way.

11,217. I understand your difficulty as to the figure of 50 crores. Supposing it is some totally different figure; supposing you arrive at the figure of 30 crores or 90 crores as the best estimate that may be made of the contractibility of the rupee circulation, is not that an effort to do what you must scientifically do when trying to institute a reserve, and is not that liable to the criticism of manufacturing an artificial calculation? And yet it is at any rate an attempt to base the new constitution upon what must be its true basis?—Yes, it would be a figure arrived at after consideration of the possible maximum contractibility of the rupee, with the addition of some definite figure as the margin for safety, I take it. That would be the basis on which you would hold the reserve, but you would then have to consider the question of increasing its size or not as the issues of rupees extended. I think you might find yourself even brought up against some difficulties there, because it is arguable whether, when the reserve has got to a certain point, and whether when very large sterling assets are available for contractibility in another reserve, you are not altogether going beyond the requirements in adding to it in any particular way. And yet if you try to keep a balance sheet you at once invite questions as to whether your balance sheet which is suitable to-day is suitable to-morrow. I do not honestly see that there is any practical advantage to be gained, and on the other hand I do not see that there is any real disadvantage to a Government or Bank if in addition to showing a paper currency reserve of great strength it is also in the happy position of being able to exhibit that it possesses another reserve also of great strength. I think all that tends to produce confidence in the currency. I know that in countries where there is only a note issue to be looked after, or thought about, the idea would not be in accordance with accepted practice and tradition, but in countries which have gone in for a gold standard without a gold circulation and with an unlimited legal tender silver circulation the possession of a second reservo and its exhibition as a second reserve has been regarded as quite the right thing. I think in the case of India we are very largely breaking new ground, and one must not expect to find that the exhibition of an account which is suitable in the case of different countries would necessarily apply without any alteration to the case of India. With reference to the rupee reserve you will understand that the argument in favour of maintaining the reserve separate fits in with the view which I have put, that the position of the rupee with the King's head and as a Government coin, is not on all-fours with the banknote issued by the bank.

11,218. As regards a good deal of what follows in your Memorandum I think I can deal with it shortly, because we understand that it applies only to the continuance of these present dual functions, and you have simplified it a good deal by saying you would not consider it as a matter of policy to maintain the differentiation of function as regards the internal currency and the maintenance of exchange between the Government and the Bank if the Bank were a true Central Bank. In paragraph 3, sub-paragraph (F), you say:—" The proposals Mr. Denning makes for the constitution of the Paper Currency Reserve are coloured by the idea of stimulating the use of gold in India. But the holding of unnecessary gold is costly, and surrenders a large part of the advantage that India is in a position to derive from the close association of her currency and finance with sterling now that the British £ is again on a gold basis." Has that any bearing upon your opinion as to the desirability of the circulation of gold coin as a part of a gold exchange standard system?—No, I do not think it has any particular bearing on that. My idea there was that if the stimulation of gold circulation in India was not approved then it was open to India to take advantage of the fact that by holding a substantial portion of her currency reserve in the form of gold exchange securities she would benefit substantially in point of view of the cost of providing a thoroughly efficient currency system.

11,219. I understand from other parts of your Memorandum that you are not of opinion that under the gold exchange standard system it would be possible to hold no gold at all in the reserve?—I do not think that would be a desirable thing to do for reasons which I have suggested. But of course I do think that if gold is held it must be recognised that the gold is held for use if circumstances require. I do not support the idea of just holding gold, and I think one should accept the view that gold held must be available for export if it is considered it is in the country's interests that it should be used to meet the demand for foreign exchange. I think we have to recognise that every portion of the Indian currency system must have its use. If the idea is abroad that the gold under no circumstances could be allowed to leave the country, I should take a different view of the subject of the holding of gold by India.

11,220. What is the object of having a gold holding under an exchange standard system? What purposes is it to serve?—*Pro tanto* it gives you a certain

amount of independence. If, as has been suggested, we have still to contemplate the conceivable chance of sterling becoming divorced from gold, the position of gold *pro tanto* gives you a certain insurance against that risk.

11,221. I suppose when the time comes at which you have to make large use of the reserve it serves as a buffer between immediate necessity and the security market?—Certainly. In the case of emergency it might be extremely useful for India to have a certain amount of gold. The question for judgment is as to what amount of gold she should hold. Also I recognise the view that gold is habitually held to a certain extent by Central Banks, and that general conception would fit in with the utility and availability of gold for the kind of purposes which you, Sir, have just mentioned.

11,222. Another important question arises in paragraph 4. You there say:—" The silver holding is higher than is necessary, and it is worth considering whether steps should be taken to reduce it somewhat by gradual sales." After glancing at that possibility you deal with the matter further in the next sub-paragraph, where you say that ultimately no doubt silver will have to be re-purchased, and you come to the conclusion that on the whole it may be doubted whether there is sufficient advantage in reducing the Government's holding by sales, and whether it will not be preferable to allow the present surplus to be reduced automatically by natural absorption. Do you consider that there will be such a natural absorption of the surplus holding of silver as will lead to its reduction within a foreseeable future?—Yes, assuming favourable seasons in India. If you would have the kindness to turn to the Note on the promotion of a gold currency in India, there are some figures which may be of interest showing what has happened since the 30th September and the 22nd January. In the footnote you will see that the holding of 90 crores has been reduced to 82 crores. Of course I cannot say how much of that will represent permanent absorption, or how much may return when the season is over, but the experience of Indian conditions over a long period indicates that there is a steady and progressive absorption of silver which in the past has on occasions lead to the necessity of coinage on a larger scale. I am speaking now not of the abnormal period of the War, but of periods before the War with which all those who have had to deal with Indian finance are quite familiar, when there has had to be fresh coinage on a substantial scale. I see no reason to doubt that, given time, the surplus will disappear.

11,223. Nevertheless we have to contemplate all possibilities, and the system should no doubt be one which is proof against all possibilities. Supposing as a result of a series of bad seasons there was to be no such absorption possible, and even, on the contrary, that there was to be a return of rupees, so that the surplus held were to increase, how would you then propose to deal with the surplus?—The only way to deal with the surplus in such a case would be gradual sale. The amount to be sold of course would have to be carefully limited with reference to the possibility of getting rid of it with as little loss and disturbance to the silver market as was possible. And you would have to frame a view. You can only take estimates as to what your programme of sales would be, and when the time would be arriving when you might have to repurchase. You would have to make some calculations to give you some idea as to whether or not the operation is likely to be a paying proposition. In Appendix III of this Memorandum I got out some figures showing the hypothetical result of sales of moderate amounts of silver which show the speculative character of that kind of operation, if you are dealing with a country where repurchase is a moral certainty at some time or other. Our experience has always been that purchases of silver for India are made on a rising market and I do not suppose anybody would wish to question the fact that any substantial sales of silver would probably be on a falling market. You have to have a very substantial assurance of being able to purchase back at more or less the price at which you sold before the interest gained in the interval will make up for the loss, as you see from these figures which do not show very large differences between buying and selling prices.

11,224. I understand it is your proposal that the sales would be financed from the gold standard reserve. In other words, the loss would fall upon the gold standard reserve?—I think that is consistent with the principles on which the gold standard reserve has been built up. Actually, of course, how you finance it as between the two reserves is more an accountancy question than one of real consequence, because the real assets that are held in the two reserves remain the same in total. It is only a question of their distribution.

11,225. In paragraph 4, sub-paragraph (2), you raise the question of the adjustment of accounts between the Bank and the Government. At any rate that is a convenient point at which to introduce the question, I think. You say: " It seems a question whether it would not be desirable to give the Bank a small share in the profits of the note issue in order that they might have some interest in avoiding an excessive holding of metal "—that is silver metal?—Or gold metal, I suppose.

11,226. " Possibly by allowing a small percentage of the yield on the sterling investments beyond the initial figure ". I should like to ask this general question. What would you look upon as the most convenient method for the adjustment of the accounts between the Bank and the Government in regard to the contemplated monopoly of the note issue, the holding of Government deposits, and other services rendered by the Bank to the Government, and the advantages derived by the Bank from its relations with the Government?—I should be inclined to think that, speaking generally, it was undesirable to have to deal with that question item by item, and that practical convenience would probably be found to lie upon the side of the Government taking either the whole or the major portion of the profits beyond a certain figure after allowing for due allocation to reserve.

11,227. That is, the general profits of the Bank?—I am inclined to think that would be the best way. I know when the Indian Departmental Memoranda were prepared they laid stress on the view that the note issue profits should be appropriated to the Government. If you adopt that as a basic principle you at once have to deal with the question of remunerating the Bank for each service, and you would not be able in that case, I take it, so conveniently to appropriate the bulk of the profits as you would if you brought the profits of the note issue into the general account of the Bank.

11,228. It has also been put to us that any arrangement by which the Government was to take any part of the profits in the note issue would involve some control by the Government of the expenses of the Note issue department, which would have its practical disadvantages. Do you attach any weight to that consideration?—I think if you make over the note issue to the Bank and you have a Central Bank established, you must reasonably give them independence in dealing with a question of that sort. I have no doubt that the Indian Departmental views on this question might have been different if when they wrote those Memoranda they had envisaged the question of the creation of a true Central Bank.

11,229. To summarise that, I understand that from the point of view of the advantages of simplicity and smooth working you are inclined to favour the method of the Government taking a share of the general profits of the Bank rather than any special calculations of their profits on the note issue?—Yes, due allocations being provided for bank reserves. I suppose in a case of that kind some limitation would

have to be fixed as to the setting aside of profits towards the bank reserve from year to year.

11,230. In paragraph 5 you say:—" It is obvious that the control of the Note issue involves the grant of permission to the authority controlling it to transfer funds freely between India and London, and there seems no reason in that case for restricting the operations to one centre." I understand you to mean that the Central Bank for the conduct of its business must be free to deal in exchange for that purpose?—Certainly, either in India or in London as circumstances may suggest to be expedient. I only really put that point in, as you will see, because it appeared that the actual wording of the Indian Departmental Memoranda imposed a limitation which was really superfluous by introducing the words "in India," because these operations can obviously be effected on either side.

11,231. I think that is dealt with more at length in your next Memorandum, is it not?—That may be so.

11,232. I suppose that any possible difficulty in peculiar India conditions in maintaining the functions of the Bank in this respect might be removed were the Bank to be a true reserve bank such as contemplated and not at the same time engaging in commercial business?—Yes, I think that is so. No doubt the terms on which the bank was constituted would prescribe that their exchange operations should rather be with banks than with the public.

11,233. The exchange operations of the true reserve bank?—That they would buy sterling from the exchange banks and sell sterling to the exchange banks, and the Central Bank itself would not deal with individuals. As I understand, it was to be a banker's bank. It would rediscount sterling bills, but I take it that its operations would not be between itself and private individuals, but with the banks.

11,234. Do you suggest any limitations in that regard which do not apply, for instance, to the proceedings of the Bank of England as regards exchange operations with a foreign country?—I think the Bank of England is in rather an exceptional position. I do not know how far the Bank of England on its own account deals in foreign currencies. No doubt it is buying dollars on behalf of the Government or through agents on behalf of the British Government. I do not know how far the Bank of England holds bills expressed in foreign currency on its own account. I should be very glad to know if you would enlighten me on that point.

11,235. That is rather a question of evidence from those who are in direct contact with exchange business, and can speak on behalf of the Central Banks as to what, if any, limitations were possible consistent with the conduct by the Central Bank of this essential business?—My only point really was that these exchange operations should mainly be with other banks selling sterling or buying sterling to and from them, and rediscounting bills, but it should not itself deal with individual members of the public or individual institutions.

11,236. In other words, that it should not conduct the general business of an exchange bank; that it should only conduct exchange business for the discharge of the functions of a Central Bank?—That is a broad conception that I think ought to be laid down in the Statute or Charter governing the bank.

11,237. With regard to paragraph 7, I am not quite sure of the purpose of your very useful information contained in that paragraph?—I thought it would be of interest to the Commission to have a brief statement—it is not intended to be a full statement—of our relations with the Bank of England in case the question came up at all in connection with any proposed extension of the functions of the Imperial Bank or the new Central Bank. I put these points down mainly as headings, so that if any Member of the Commission wished for elucidation of them I could give it to the best of my ability.

11,238. For instance, you say: "Under Clause 23 (2) of the Government of India Act, such parts of the revenues of India as are remitted to the United Kingdom, and all money accruing in the United Kingdom for the purpose of the Government of India, have to be paid into an account at the bank of England." That seems to suggest that the constitution of a true Central Bank in India conducting the characteristic business of such, with a branch in London, might need some adjustment under that Statute?—Well, how far is that necessary? For example, do the Central Banks of European countries have branches in London, or do they as in the case of the Federal Reserve Bank in New York, employ some other bank as agent in London? I do not see anything inconsistent with the position that the Secretary of State's account should continue to be held at the Bank of England. At the present moment, as I say, the position is this. No doubt the purpose of this Clause was in effect that it was intended to place the account of the Secretary of State at the Bank of England, and there it has remained as regards his own account. There does not seem anything inconsistent with the practice of the Central Bank that when funds are remitted to a foreign centre they should be held at any bank in that foreign centre that may be deemed expedient.

11,239. Do you see advantage or disadvantage in the continuance of these relations with the Bank of England?—I see great advantage in maintaining these relations with the Bank of England. The Bank of England has served India extremely well in the past, and its unique character has enabled it to do things for India which no other bank in this country could have done, I think. I consider it is a great thing that the account of the Secretary of State for India should be at the great Central Bank of this country which holds the account of the British Government. I do not think that any bank in this country could have done some of the things for India which the Bank of England has done.

11,240. Then in the next paragraph you say: "The Secretary of State has entered into agreements with the Bank of England, (*a*) in respect of his balance and the printing of currency notes, the agreement not expiring until 1929." That indicates that if any alteration in the note issue were contemplated before 1929 which would involve a different form of note or a note of different status, it might involve adjustment of that agreement with the Bank of England?—It would probably involve some adjustment of the agreement with the Bank of England, but owing to circumstances that have arisen I do not think the adjustment would create very much difficulty. The Bank of England would, I apprehend, be ready to meet us in that matter. Actually, of course, the production of dies and all the rest of it takes a good deal of time, and the Government of India are contemplating the manufacture of their own notes in India, and suggestions have been made with regard to taking over machinery and so forth which the Bank has been using. I do not think there would be any particular difficulty as regards the Bank in regard to these matters, though if there was it is obviously not a matter of very great consequence. One could not give up an agreement of this if the Bank attached importance to its maintenance. After all, they have put up a certain amount of capital in providing the plant required for these notes and so on, and if the agreement was terminated in a way which inflicted loss on them, suitable adjustment would have to be made. But there are circumstances which lead me to think that no particular difficulty need be apprehended as regards the notes. Of course it is quite a different thing from the custody of the Secretary of State's balance. The printing and production of notes for a third party is not really primarily a banking duty. It is more like a commercial operation.

11,241. (*Sir Reginald Mant.*) I should like to take you back for a moment to the question of the division of responsibilities between the Bank and the Secre-

tary of State. You have explained to the Chairman that you thought it necessary for the Secretary of State to retain custody of the gold standard reserve if the note issue were made over to the Imperial Bank?—That is to say, if the present character of the Imperial Bank is maintained.

11,242. I gather from your subsequent evidence that you do not consider that division of responsibilities desirable. You quoted the authority of Mr. Keynes' Annexe to the Report of the Chamberlain Commission. In the footnote on page 79 of that Report Mr. Keynes said: "The propriety of this might be brought out further by showing that in a future crisis the convertibility of the note issue and the support of exchange may not always prove to be entirely distinct problems." So that evidently he had some doubts as to division of responsibility, and I gather from your subsequent evidence that you do not consider it desirable?—I do not consider it desirable to have a divided responsibility, but I hope I have made it clear that I consider in a sense that there should be a shared responsibility through the presence of Government nominated directors, and through the close contact established between the Government through some high financial officer with the Bank.

11,243. What I want to be clear about is whether I am correct in inferring from your evidence that the undesirability of dividing responsibility is an argument against transferring the note issue to the Imperial Bank as at present constituted?—That would be an argument against it if things remained as at present.

11,244. Now I turn to the question of amalgamating or keeping separate the two reserves. Would I be correct in describing your position as follows? We have to provide against two liabilities, (1) the internal convertibility of the note issue, (2) the external convertibility of both the currency note and the rupee. The paper currency reserve is designed to meet the first liability, but it is also used, and rightly used, to meet the second in some degree; whereas the gold standard reserve is designed and used only for meeting the second liability. Would that correctly describe your view?—Yes, I think that is a correct statement of the position. Certainly the origin of the currency note reserve primarily had reference to securing the internal convertibility of the note, but the development of the Indian currency system has shown that it can be properly used for the purpose of maintaining the external value of Indian currency.

11,245. If you made over both reserves to the Bank, but kept them, as at present, as separate reserves, on which reserve would the liability for securing external convertibility rest in the first instance? Would you first apply the currency reserve to meeting the demands for external exchange and only fall back on the gold standard reserve when the sterling resources of the currency reserve were exhausted?—I think that is the way I should look at it, speaking generally. I should rely on the contraction effected through the currency note reserve as being the appropriate method of dealing with the question of a redundancy of local currency.

11,246. The gold standard reserve would remain intact as long as there were sterling resources in the currency reserve?—Broadly speaking I think that is so. I do not know whether if you had a prolonged strain on the resources the question would in any way come up of utilising the one or the other. As far as I can see at present it would not have any particular significance in that sort of situation as to which reserve you worked with, or whether you divided it between the two. In either case you would be capable of effecting the desiderated contraction, and in either case your aggregate gold assets would remain the same.

11,247. It occurred to me that it might have significance in case of a prolonged strain on the sterling resources. I take it you would impose a legal obligation on the Bank to maintain the gold standard reserve intact in the sense that the total value or rupees or sterling resources in the reserve should not be diminished?—Yes, I should embody that in the statutory provisions governing the reserve.

11,248. It is conceivable that if the Bank were at liberty to draw on the gold standard reserve it might in the course of time become full of rupees?—Yes, *pro tanto* reducing the amount of rupees that might otherwise have been in the currency note reserve.

11,249. In the course of time it might be necessary to get rid of those rupees and sell them off?—That is so.

11,250. In that case I presume you would make provisions for reducing the amount of the reserve to the extent of the loss on the sales of rupees?—Yes. I think in a case of that kind you would have to seek the powers from the Legislature for the operation. I think that is a matter of sufficient importance in the circumstances with which we have to deal in India to involve some reference to the Legislature. An actual diminution of the size of the reserve would be involved.

11,251. You would leave that to be provided for as the occasion arose?—I think I ought to leave that to be provided for if the occasion arose. I suggest that the present redundancy of rupees is probably not sufficiently great as to warrant a sale at the moment. There is a certain amount of information in the India Departmental Memoranda showing that the authors of those Memoranda themselves have some doubts on the point. I do not think I should make provision at this juncture for the sale of silver.

11,252. In connection with that point I would draw your attention to what you say in paragraph 4, sub-paragraph 2, namely that the metallic holding of 50 crores should be fixed as the normal maximum of silver rupees. But in your Appendix III, in which you consider the effect of selling off silver, it seems to me that you treat the 50 crores as the minimum, because in the table which you give you suggest coining rupees as soon as the holding falls below 50 crores?—I took that figure on the ground that it appears to be regarded as not an extravagant figure to contemplate in present circumstances, and I thought that if we could see a reasonable likelihood of such a figure being reached in a comparatively short time one might regard that as perhaps the basis on which to form a view as to whether the sale of silver would or would not be expedient.

11,253. You provide for fresh coinage as soon as the stock falls below 50 crores?—Yes. I have in these calculations suggested that for this purpose 50 crores might be regarded as a sort of normal holding.

11,254. You treat it as a minimum?—Yes, for the purpose of these calculations. That is an interpretation that can be put upon them.

11,255. But surely you would not commence to re-coin rupees when you hold 50 crores?—No, you would not. From that point of view I think the calculations in Appendix III are open at first sight to the criticism which you have just mentioned and which I wish to consider.*

11,256. That vitiates the whole calculation, does it not?—If you do get it down to 50 crores it is pretty clear that absorption on that scale would soon take you to a point when you would be thinking of further acquisition of rupees.

11,257. Taking you own premise of an absorption of 7 crores a year, I take it you would not begin to recoin until you got down to the neighbourhood of 20 crores?—I doubt if you would in these days allow the reserve of silver to some down to anything like as low a figure as that. I think, speaking from memory, that if before the War the sort of standard figure for rupees was somewhere in the neighbourhood of 28 crores or something of that

* See Nos. 11,437-90.

sort, with the great increased circulation of notes you would not contemplate letting the normal silver holding go down as low as that. It must be remembered that this memorandum is based on the view that the convertibility of tho note means normally convertibility into the silver rupee.

11258. We had some evidence from Colonel Willis on this point, the Master of the Mint in India. My impression was that it would be safe on the figures he gave us to let on the reserve go down to something in the neighbourhood of 20 crores?—20 crores represents just about 10 per cent. of the notes outstanding, and we are not contemplating any normal cashing of notes in gold. In that case I think one would regard that as not a safe reserve for the internal convertibility of the notes. If you put it at 20 per cent. you at once get to a figure of 40 crores as a suitable holding for internal convertibility purposes, and I should not have regarded that an unreasonable amount to hold having regard to the circumstances of India and the possibility of some panic or uneasiness. There might be a demand for metallic currency in exchange for paper notes.

11,259. I do not want to go into the exact figure now. The only point I want to bring out is that upon your showing there might not be such a considerable loss in selling silver?—The calculation would have to be further examined with reference to whatever figure you took of the minimum to which you could safely reduce the silver coined holding of the reserve.

11,260. I want to come back to the point we were discussing on Wednesday with regard to the obligation of the Bank to contract currency in the event of a fall in exchange. You were doubtful, I think, whether the Government should be placed under an obligation to contract currency to tho full extent. I understood from your evidence today that you would impose a legal obligation of that kind on the Central Bank?—Yes, I did on Wednesday suggest that the obligation on the Government to contract in the event of the use of the gold standard reserve might not be statutory. I did, on the othor hand, recognise definitely—and I should like to make it as emphatic as I can—that there should be an obligation on the Government, but I suggested on Wednesday that the obligation might possibly be taken in some form other than a statutory obligation. It is, I admit, clearly arguable whether evon if the Government held the reserve, the obligation should not also be statutory; but it can in the caso of a Government, which is answerable to its Legislature, be made formal in other ways, so that the question may he raised if they do not contract. I think that if the Government were not placed under a satutory obligation it should be made incumbent upon some authority such as the Auditor General to advert to the fact that thoy had not contracted, so that the matter should be brought prominently forward, even if it had not been brought forward, as it presumably would have been done, by the Government at the time. I think it is a thing of groat importance which deserves to be emphasized in every way. But I said to-day that if it was made over to the Bank I should unquestionably go further as regards the formal character of the obligation, because I felt it would not be suitable to make over a large trust fund to a bank which *ex hypothesi* would not bo under the eye of the Legislature to the extent that the Government would be without making the obligation definite and statutory. So that if there was to be any desire to avoid the obligation it would be incumbent upon the authorities to bring it to the notice of the Legislature, just as it would come to the notice of the Legislature if the Government retained responsibility and they had not actually carried out their obligation to contract, though the obligation in the circumstances we were discussing on Wednesday might not have been imposed by Statute but might have been self-imposed by resolution or some other formal way.

11,261. You would make it statutory in the case of the Bank?—I think you would have to make it statutory in the case of the Bank, because I do not think it is possible to permit a large trust fund of that sort to be used by a bank without very close definition as to the way in which it should be used. That would only be one aspect of the statutory obligations regarding the Reserve.

11,262. On Wednesday you told us that it was necessary to leave a certain amount of discretion to the Government to safeguard against excessive contraction leading to financial stringency, but under the scheme you have adumbrated to-day there would be no such safeguard because the obligation of the Bank would be statutory. Is there any safety valve you could provide in such a case?—There would be the safety valve that was mentioned by your Chairman in the possibility of expanding the fiduciary issue under the Clauses of the Act permitting such expansion against a rate of interest more or less penal according to the circumstances. That would be the first safeguard. The second safeguard would be that in the event of a critical situation arising it would be incumbent in the last resort upon the Central Bank, as the authority responsible, to come to the Government and say "We must have relief from these provisions in the interests of Indian trade and the security of the Indian money market," and it would then be for the Government oither to issue an ordinance if the Legislature is not sitting, or at once to bring up the matter before the Legislature if it is sitting and deal with the thing instanter. It is a thing which requires to be dealt with at once, obviously, just as it is in this country in the case of a right granted to the Bank of England in certain circumstances to increase its fiduciary issue—a thing which has been done two or three times in the last century by the Government of the day, which I take it would have to come to Parliament afterwards for legislative cover for its action if the Bank had availed itself of the permission accorded to it. I think you would have that safeguard in India also, but I think that it is desirable to have stringent regulations on this point if you are making over the reserve to tho Bank. I say there are those two safeguards. Of course, if you feel that there is too much stringency in that you could still impose an obligation to contract by some form of injunction accepted by the Bank which would compel the Bank to come to the Government and the Government to inform the Legislature if it had to give them some temporary absolution from it. It is not impossible to apply in the oase of the Bank some such sort of arrangement as I suggested as possible as regards the Government, if you thought it on the whole advantageous. But I felt, on thinking it over, that if you were to give it to a bank you would do better to make it statutory straight away. In any case I think you have to impose an obligation, and to make a departure from the obligation something of a big affair.

11,263. The obligation would be to sell foreign exchange or gold?—Or, rather, would it not be to contract funds in India in proportion to the sales of foreign exchange? It is theoretically possible that they might be selling foreign exchange, drawing in funds to themselves in India, but not locking up those funds.

11,264. There would be a legal obligation to maintain the reserves intact?—In so far as that obligation is laid down, it would mean compulsory contraction, *pari passu*, with the issues of gold or gold exchange, or both. If that particular obligation remains, and the Bank satisfy the authorities that contraction is not possible owing to the threat to the Indian money market and business, it might mean the suspension for the time being of sales of reverses for the support of exchange. There is another suggestion that ought to be brought to your notice, viz.,

the possible alternative, which would not be covered by the statutory provision that we are referring to, of permitting a sale of reverses to continue without full corresponding contraction. That would involve equally a relief from an obligation, namely, the obligation which you have mentioned of maintaining the aggregate of the reserve intact. You could give relief in either of those ways, as far as I see.

11,265. Could not the Bank borrow money in London and meet the reverses from those borrowed funds while still fulfilling the legal obligation of keeping the reserve intact?—That is a possibility which could be considered, but I venture to suggest that that is a very serious matter for the Bank to contemplate. It would be borrowing money in London which it would be utilising for the purpose of drawing in local currency in India. It would have the liability to pay back that money in London, and if at some later stage in this hypothetical crisis we are considering the exchange had to be allowed to go, the Bank might incur very heavy losses in the discharge of the loan which it had raised in London for this purpose. I doubt very much the wisdom of envisaging that possibility.

11,266. I only mean that it would be open to the Bank to do so within the four corners of the law?—It would be open to the Bank to do so within the four corners of the law.

11,267. The obligation would be to keep the reserve intact and not necessarily to contract the currency?—I think that is a very undesirable method of procedure which ought to be guarded against. Might I refer back again to what I think is the difficult question that we were discussing on Wednesday, namely, the actual form of the obligation to maintain the exchange. I have been thinking a good deal about that since then. We had under the pre-war system an obligation to issue rupees against the tender of sovereigns. So long as that situation endured obviously it fixed the upper limit to which the rupee exchange could rise. You asked me on Wednesday about the arrangements for the support of exchange in the reverse direction. Well, we did not discuss on Wednesday the question of making the reverse obligation statutory. It is worth recalling to the Commission the fact that under the pre-war system the obligation to give gold exchange for local currency was not a statutory obligation. It is an important question which one has to face now as to what form the obligation in that matter should take. I said the other day that I considered that there should be an obligation to give the tenderer of rupees at the option of the Government gold at par or gold exchange at the appropriate price. But the question of making that obligation statutory was not at that time raised. When you asked me as to what would happen if sterling became divorced from gold, I at once was brought up against certain difficulties in the way of making it statutory which have to be met, because I take it if you had expressed in a Statute a certain specific figure in sterling, now equivalent gold, that statutory figure might not in the case of sterling going to a discount adequately secure your theoretical parity, because as I suggested the option of giving gold at par or gold exchange at the fixed price should rest with the Government. I certainly could not, as at present advised, support a proposition which imposed upon the Government the obligation to give gold at parity in those purely hypothetical circumstances, and the question of appropriately varying the foreign exchange would have to be dealt with. As I said, the option between the two was to be an option with the Government. The question with which you would then be faced would, therefore, be the alteration of the sterling rate fixed in order to bring it up to the appropriate gold equivalent in the case of sterling being at a discount. I am inclined to suggest as a basis for my examination on this point that there would be a notification issued under statute that the Bank would give at its option—assuming now a Central Bank established—gold at par or gold exchange at the appropriate price until further notice. And that offer would remain open, it may be hoped, for ever if sterling and gold remain synonymous for ever. But I should rightly be asked what would happen if sterling in that state of things was divorced from gold. Sitting here I do not feel that I can give a categorical answer to what you ought to do in those conditions. I think that was an aspect of the case before me when we were dealing with the question of South Africa and the position she had to take as to whether to follow sterling or go back to specie payments on her own account. I think if that condition did arise the authorities responsible for the currency policy of India would have to consider their position and act as they thought right in the light of the circumstances.

11,268. (*Chairman.*) It comes to this, does it not? If sterling becomes divorced from gold, you are not prepared to say the rupee should remain pegged to gold?—I should have to consider the circumstances I think.

11,269. You are not prepared at the present moment to contemplate, without hesitation, any system which would have the effect of pegging the rupee to gold, whatever happened to sterling?—I do not think I could, looking at the interests of India, undertake an absolute and positive obligation of that kind. I do not think it would be right to do so. I think it is quite conceivable that, when the occasion arose, you might decide to keep to gold. On the other hand, it is also conceivable that the arguments, which are very strong in such conditions, of following sterling might be held to be decisive. It would depend, of course, very much on what had actually happened to sterling, and what the prospects were, and what the situation was.

11,270. (*Sir Reginald Mant.*) I should like just to clear up that position. I take it your position is practically that you are in favour of a sterling exchange standard and not a gold exchange standard?—No, I would not say that, because to-day I regard sterling as synonymous with gold, and at the moment I cannot contemplate what it would be in India's interests to do, in hypothetical circumstances, in the event of a divorce of sterling from gold. I do not say it would be right for India to follow sterling in such a case. The suggested divorce of sterling from gold would be a momentous event of far-reaching consequences, and it would probably be a factor in another large series of events, and India might have to consider her own position. It is conceivable—taking a pure hypothesis—that that position might arise if for any reason, for instance, gold depreciated very much in purchasing power. Supposing sterling became more valuable than gold, supposing, for example, the Bank in this country was relieved from the obligation to buy gold at a fixed price, and that this country had, for instance, for some reason or other adopted the policy which was tried by Sweden at some stage during the war under which coined gold was more valuable than uncoined gold, then sterling would be a better thing than gold, and I should then want also to consider my position as regards India, and I feel that the India Government and the India Legislature would want to consider their position in a situation of that kind. It is a conceivable situation in the world as it is to-day. I do not say it is a likely thing, any more than the divorce of sterling from gold is likely, but you can have it both ways. You can conceivably imagine sterling becoming less valuable than gold; you can also conceivably imagine sterling becoming more valuable than gold. Either of those two things would seem to me to raise a big question which you cannot answer categorically in the light of a system which has to be drawn up on what, I think, is the right and correct method and basis of drawing it up, namely, the basis that sterling and gold are synonymous. The possibility of divorce has been mentioned; I am only trying to bring out the possi-

bility that there might be divorce in one of two ways.

11,271. We have heard so far this morning that you would impose a legal obligation on the Central Bank to sell. I am not quite clear what it is you would make them sell. I think it would clarify the position if you would be good enough to tell us that?—Gold at par in India, or gold exchange at the appropriate price, that is to say, less transport, etc., charges, until further notice.

11,272. At a price equivalent to gold?—That is so, until further notice. That would be the standing offer available, much the same as the Bank of England's standing offer to buy and sell gold.

11,273. But who would give the notice?—The notice would be issued under the conditions we are now contemplating by the Central Bank, but it would, of course, be given with the authority of the Government and Legislature, because this is a thing of transcendant importance, and, so far as we associate the Government and the Legislature with the Bank, it is obvious it would have to be associated with a declaration of that kind.

11,274. You do not put in an Act that something shall be done until further notice; you prescribe somo authority which has to determine when the condition shall be changed?—You understand that under the pre-war system the Act did not provide for this situation at all.

11,275. There was no obligation?—The Act imposed no obligation. A notification was issued under which the Government undertook certain obligations, and the last Committee that dealt with this point left the matter to be dealt with by a notification. What I want to address ourselves at the moment to, is as to whether we do not think that the obligation should now be undertaken by Statute, or whether it should also be undertaken by notification. I feel that, whichever way you do it in practice, if you had the divorce of sterling from gold you would, in the circumstances that then existed, be forced to consider your position. It is not a likely contingency, but it has to be stated. I do not think you could put yourself in a position of allowing yourself to give an unlimited obligation which could not be dealt with at the appropriate time of giving gold at par without limit, or which precluded the alternative of appropriately adjusting the foreign exchange alternative to the variation of sterling from gold.

11,276. You told us just now that if we made over the management of the currency to a Bank you considered it necessary to put them under a legal obligation to sell foreign exchange, and since then you seem to be going back to the old idea of a notification?—I said that the gold standard reserve would have to be under statutory regulation, that is to say they would have a reserve of a certain amount and if certain things happened to it it would have to be held in another form.* But in dealing with the statutory control of the gold standard reserve I was not dealing with the obligation of selling exchange any more than the Paper Currency Act as it stands to-day deals with such an obligation. We know it is used for the purpose but there is nothing in the Paper Currency Act requiring the Bank to utilise the sterling assets from the paper currency reserve for the grant of foreign exchange.

11,277. Am I to understand that you do not propose to make it legally incumbent on the Bank to sell foreign exchange? Is that your position?—I am disposed to think that the obligation imposed upon the Bank should be an obligation published by notification and imposed by Act.

11.278. You mean that the Bank should be obliged to issue a notification. What would the obligation be exactly?—It would be incumbent that a notification should be issued by the Bank in a more binding and different form from the notifications that have been issued by the Government of India in the past. The Government of India have issued notifications that they would to the maximum extent of their resources sell foreign exchange. The general obligation to maintain the exchange must be statutory but I doubt whether the time has yet come, until we have had more experience of things, for putting in the statute the gold exchange figure equivalent to gold at par, or whether this figure should not be given in a formal notification issued under the Act. May I just put one point on the difficulty of making that sort of thing statutory. You have gold at par or gold exchange at the appropriate price. That appropriate price depends on things like shipping charges, insurance charges, and so on, which themselves may fluctuate. Therefore you must have some means of adjusting that figure to the appropriate gold parity.

11,279. Just this one question to make it clear. Would the Bank be at liberty to withdraw the notification at any time? If so, it seems to me that you are imposing no real obligation on the Bank?—I do not follow the suggestion that the Bank would be at liberty to withdraw the notification at any time. I think in a thing of that kind of transcendant importance it has to have the whole force of the Government and the Legislature behind it. But I am only suggesting that there are certain difficulties in the way of embodying in the Statute an actual figure for foreign exchange or sterling representing a definite quantity of gold less transport and insurance charges.

11,280. (*Chairman.*) I think I am right in saying that no difficulty was found in inserting gold points of a sort in our own British Statute?—Here we have to give grains of gold for local currency. We do not have to deal with what is given in the way of dollar exchange, for there is no obligation on the part of the Bank of England to give dollar exchange at a fixed price. In this country the obligation is grains of gold against currency, and in the old days it used to be sovereigns against grains of gold.

11,281. With regard to general precautions, is it really necessary for you to do more than to say that if you please you can peg the rupee to gold now because gold is equivalent to sterling, but recognise that if on some future convulsion sterling is shaken off gold, then India or in fact any other country may have to reconstruct her currency system?—That is what it comes to.

(*The witness withdrew.*)

# THIRTY-SECOND DAY.

## Monday, March 8th, 1926.

PRESENT.

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER.
Mr. A. AYANGAR } (*Secretaries*).

Sir JAMES BRUNYATE, K.C.S.I., C.I.E., called and examined.

11,282. (*Chairman.*) You have been kind enough to come and assist us to-day with your evidence, and you have already supplied us with a very valuable Memorandum.* You have been Secretary to the Government of India in the Finance Department, and a Member of the Council of India, and, I think, Chairman of the Finance Committee of that Council?—Yes. Perhaps I might add that I have really been associated with Indian finance almost continuously since the establishment of the gold exchange standard in 1899, either in a junior capacity or in a more senior one.

11,283. What was the period of your tenure of office as Chairman of the Finance Committee of the Council of India?—I became Chairman of the Finance Committee in January, 1920, and I held that position until I retired from the Council in May, 1924.

11,284. Let me turn to your Memorandum and ask you a few questions in order to elucidate the principal points of interest. In paragraph 2 you refer to the reattainment of normality in silver prices. Are you confident that there has been a reattainment of normality in silver prices?—I did not mean definitely to imply that there could not yet be considerable changes in the value of silver, but that the present price of silver, and its comparative steadiness recently, constituted a kind of normality as compared with the wild fluctuations and extraordinarily high prices which prevailed when the last Committee which considered Indian currency sat. As regards the possibility or probability of substantial fluctuations from the value of silver as obtaining to-day, I do not think there is anything I can say with any competence or authority to this Royal Commission.

11,285. Just to lead you to what is in my mind, the price of silver appears to follow that of other commodities. The present price is 30d. In August, 1914, it was 27d., which seems to indicate that the rise in price has not been commensurate with that in other commodities?—That is so.

11,286. In paragraph 3, dealing with the two propositions of the establishment of a gold currency and the investment of the Imperial Bank with certain functions, you say you see advantages in the second. May I ask you to specify what you consider the principal advantages?—I have mentioned one there of an incidental kind, but it is not my wish to offer opinions on the quasi-political aspects of the currency question, nor do I profess to be an authority on that matter. I have felt to an increasing extent the difficulty, both under present political conditions and under modern conceptions of currency practice, of Government keeping that exclusive control over currency matters which appertained to Government in the period from 1899, when a gold exchange standard was established, up to the War, and, of course, during the War, in very abnormal circumstances. I think it is desirable that that undivided responsibility should at least be shared, or, if a Central Bank in India is possible at the present day, that it should be made over to a Central Bank. The further great advantage which I see in proposals for aggrandizing, as it were, the banking side of the currency question, is that I am more impressed to-day than I have ever been with the paramount importance of extending banking facilities in India, which, of course, implies the establishment in India of the soundest permanent banking conditions as a basis for extension. The chief thing I want to say to this Royal Commission in coming here under their instructions to give evidence is to express my feeling that, although made doubtless with the best of motives, these proposals of the Government of India as, I believe, lay the emphasis in altogether the wrong quarter. I think it would be a catastrophe to fix attention almost exclusively on such questions as whether or not you shall have gold in extensive circulation in India when the paramount question, as it seems to me, is whether you shall or shall not have the widest, soundest possible extension of banking facilities. When I say, therefore, that I see advantages in the second group of proposals, I am not referring to the specific proposals in detail, but I am expressing the opinion that it is a very desirable thing to see emphasis laid on the banking side of the currency question rather than to see emphasis laid on the gold side of the currency question.

11,287. It is put before us, by those who support the proposals of the Finance Department, that, in order to secure a more extensive banking habit amongst the Indian people, it is a necessary preliminary that there should be gold in circulation—freely available for circulation. What do you say as to that opinion?—I appreciate, of course, that it is not within my competence to ask the Royal Commission questions.

11,288. If I can explain my question further, let me do so. Is there any point on which I may help you?—It is a little difficult for me to reply to a mere dictum of that kind unless something is said as to the reasons which lead those who hold that view to think that you cannot have sound banking and extended banking in India without gold in circulation.

11,289. The argument is this: that before the uninstructed Indian peasants will part with a value in the form of a deposit or an investment they must be sure that they can get it back for the same value, and that the way to assure them of that is to have an internal currency freely convertible into gold that is in circulation. I wanted to put that argument to

* Appendix 76.

you to ascertain how far it relates to the opinion you have just advanced?—I do not want to reply to that by the mere assertion that I do not think so, but it is very difficult to advance concreto arguments against a point which is so largely psychological. I do not myself find there is evidence that the Indian shows distrust of a currency—the rupee or the note —which has not an intrinsic value corresponding to its value, or which has no intrinsic value. I was very interested the other, day in glancing through an account of the extraordinary state of desperation in which the authorities were in India from about March to June of 1918 in connection with the supply of silver, to see a statement of Mr. Gubbay's, who is a very calm and sound adviser on such a point, to the effect that the attitude of the big people, the Marwaris, was that if Government would only announce categorically that silver would be forthcoming they would trust them absolutely; and, generally speaking, my experience all through the War was that the people did trust us in a most marvellous way, and under very great temptations, as it turned out in the end, to distrust us. I have not, therefore, the feeling that visible value in front of their eyes and in their pockets is at all a necessary condition of their entrusting their money either to Government or to a bank.

11,290. But you will agree, no doubt, that a currency with a stable value is an essential condition to the promotion of the banking habit?—Yes.

11,291. Referring to your Memorandum, paragraph 4 you say that India "should realise what a gold standard now means: a managed currency with the management centred in New York." I am not quite sure that I perfectly apprehend in what sense the currency could be managed under thoso conditions with the management centred in New York? —I am not saying there directly that an Indian currency system on a gold basis would be managed in New York. I am not primarily saying that. I am primarily saying that the United States currency system is a managed system in so much as the regulation of credit and prices does not proceed with exclusive or main reference to the incoming or outgoing of gold in the United States. That is what I am saying primarily there.

11,292. As I understand, the element of management to which you refer is that which finds its expression in the Bank rate policy?—Yes. Secondly in so far as India entered into such a system and became either a co-partner of such a system, or a satellite of such a system, she would tend to enter into a managed system herself. May I add an observation here? The reason I lay emphasis on that point at the outset is that one element, at any rate, in the Indian view in favour of a gold currency is, I believe that they still have in their minds, what we all had in our minds formerly, namely, a very high regard for the conception of a gold standard as an absolutely automatic standard—something, for instance, that excluded Government interference. It was true there was a Bank rate to be settled from time to time, but it was supposed that even the settlement of the Bank rate was, in a sense, an almost mechanical function in that it followed almost necessarily from movements which were actually taking place, one way or another, in regard to gold; and I think Indian opinion has been inclined to see, in what they would perhaps call a "genuine gold standard," an opportunity of getting away from that Government interference, which, though we no doubt think it has been in the main interference of a beneficial kind, they dislike and distrust, as most people dislike and distrust the visible interference of Government in monetary matters. Therefore, I emphasise at the outset the point that you will not get on to a really automatic system. The modern conception of a gold standard, as I understand it, has passed away a good deal from the automatic idea, and has moved forward a good deal towards the idea of regulating prices and credit in order to minimise gold movements.

11,293. Would you consider it an ideal towards which to work in a currency system that it should be "managed" in the sense that the stable factor in the equation should be internal prices rather than rato of exchange?—I do think that that is a movement in the right direction. I was very much impressed with a sentence which I came across in reading Professor Cassel's book on European Exchanges since 1914. What interested me in it was the contrast between what Professor Cassel said and conditions as we have them in India. His words were these: "No gold reserve in the world can guarantee the redeemability of a currency if a general parity with gold is not maintained through a proper discount policy." The general idea is that you must keep prices by antecedent regulation at such a level that the strain thrown on the adjusting mechanism of gold movement would be a minimum; and I think that is broadly sound.

11,294. That is not quite the difference, is it? The difference is as to whether the discount policy is directed immediately towards the stabilisation of internal prices or immediately towards the stabilisation of the exchange rate. To reduce the matter to a practical question, which ideal do you think should be regarded in the establishment of a currency system for India at the present time?—The two ideals are antagonistic in a sense. For India the essential thing is that she should come into line with gold standard countries and certainly work for a stable exchange, but the antinomy between the regulation of internal prices as the ideal, and stability of exchange as the idoal, is, I take it, met as far as possible by those consultations on policy between the Central Banking authorities of the different countries, which were recommended by the Genoa Conference and which as we see from the newspapers, are apparently taking place as between New York and London from time to time.

11,295. Continuing with the paragraph, you used the phrase in one of your previous answers about India becoming a satellite of New York. Would that be in any different sense from that in which every country which has returned to a gold standard has its special relations with the world's chief centres of credit?—I distinguished in my previous answer between the term "co-partner" and the term "satellite." I recognise, of course, that London and New York are the two great money centres of the world and that inasmuch as India is not, by comparison with them, one of the great money centres of the world, she must expect to find that the influence of those centres is very powerful and that her influence is comparatively not powerful. I think, too, India would have to recognise in practice, as all sensible financiers in every money centre do, that they owe an obligation, and that it is in their own interests, not wantonly to disquiet the great money centres, but that they should work with them and, as far as possible, in harmony with them, rather than treat themselves as entirely independent authorities. But I have thought that there might be scope, even after allowing for those things, for India taking either a somewhat more important position or a somewhat more subsidiary position. If she takes her share in maintaining the gold standard of the world, if she holds gold, and is willing to part with it on occasion, and to take some share in, as it were, burying surplus gold, as the United States is doing to-day, and as London might have to do, at any moment, and if she is powerfully represented in London, I think she will havo a position more akin to that of co-partner than that of a satellite. I thought the point worth emphasizing (though possibly I have not the actual knowledge to back it up fully) because here again I think one comes across a factor in India's attitude towards the gold currency question. I have just

explained that one factor in my view was the desire to get away from Government interference—the interference of her own Government. I think another factor is a desire to be in a position of international equality—to have the best system, namely, a system which has approved itself to the great financial nations of the West, and to have tho maximum freedom in working it.

11,296. For this purpose I understand you emphasise the importance of powerful representation of the Indian currency authority in London?—I think so.

11,297. That is no doubt on account of India's special position as regards geographical distance, which is not shared by other members of the gold standard community. In the next sentence you say, "I think it important, therefore, that machinery should be established in London for regular joint consultation between the Governor of the Bank of England, the London representative of the Imperial Bank of India, and a representative or representatives of the Secretary of State in Council." Can you detail at all the nature of the machinery which you have in mind?—I have not attempted to present the Commission with cut-and-dried propositions, partly because it seems almost an impertinence on my part to offer, as it were, to write the Commission's Report for them.

11,298. I am sure we should be most grateful?—What is working in my mind is that instead of the Finance Committee of the India Office sitting in one of these beautiful rooms here, the place where these matters ought to be settled is somewhere in the City. I have a very high opinion of the Finance Committee of the India Office. It has always included some very able men, and I am quite sure that Indian monetary administration is greatly benefited by its contact in this building with the City of London and its advice; but I think things are moving rather away from that kind of management; and if you can work towards banking management on sound lines, I think it is beneficial that the administrative side—the Secretary of State—should somehow be represented there, and kept cognisant of what is going on. I take it that every great Bank in this country likes to keep in touch with the administrative personnel of the country.

11,299. Do you contemplate that the function should be advisory or executive, *vis-à-vis* the London representatives of the Indian currency authority?—It is very difficult to answer that question unless ono has in mind clearly the banking machinery to which business is being entrusted. If you have a Central Bank, as I should like to have if it is possible, then I can well imagine that you might not need definite cut-and-dried prescriptions as to what rights the Secretary of State should have in the matter; but if you feel that the establishment of the Central Bank is not at present a possible thing (and by a Central Bank I am now speaking of a true Central Bank), but you nevertheless decide to invest the Imperial Bank of India, as far as may be, with the functions which would more properly appertain to a true Central Bank, I should conceive, in that case, that the Governmental authority should be more strongly represented, and that its right of interference should be more definite.

11,300. From paragraph 6 of your memorandum, I note that you would not attach much value to gold in circulation as a support to reserves. You say you would not expect much return of the relatively marginal supply of circulating gold. In the following paragraph you support that opinion by reference to the experience of past years. That has been the experience, as I understand, of currency affairs in India—that gold has not returned?—May I say ono thing before coming to that? I did not want to be academic here, but my impression is that most authorities—and I believe Lord Goschen may be quoted in this respect—would agree in not expecting that at a time of difficulty great and immediate assistance could be obtained from gold in circulation; and in that connection I would remind the Royal Commission that one of the proposals—and a very proper proposal, I think—is that the undertaking to support exchange should be an unlimited undertaking, unlimited in amount and unlimited as regards the time in which it comes into operation. that is, when there is a demand for sterling, sterling must be found as soon as the demand offers itself, and to any extent which the demand represents. Against such an immediate obligation I do think there is very little hope of substantial assistance from gold in circulation. As regards past experience, I wish to be quite frank with the Royal Commission. I express there my view of what is a fair deduction from past experience. The only available facts I have been able to glean, which might seem to have a direct bearing on that, are the figures of the return of gold to Treasuries. Currency, of course, is always flowing in and out of the Treasuries. It is flowing in for payment of Government revenue and for exchanges into other forms of currency, and it is flowing out for Government payments and to meet demands for exchanges into other forms of currency. I notice that just before the War Indian Treasuries received something like 10 million sovereigns in one year. The railways and the Post Office received about 2 million apiece from the public. The figures are something like that. I mention them, because others to whom those figures are given may think that they denote a fairly large volume of inflow and outflow of gold, and show rather a satisfactory result of the efforts to put gold into circulation. But the conclusion I draw with those figures in mind and also on the basis of my general experience, is that though there *was* some beginning of a real gold circulation there was not any real indication of a helpful influx of gold from the point of view of meeting the demand for sterling remittance in periods of exchange weakness.

11,301. In paragraph 7 you say "The policy of maintaining exchange by external credits is now, I should say, a fully accepted feature of post-war practice." Do you think the policy of external credits is a permanent policy for the permanent maintenance of exchange, or is it not rather one intended temporarily to tide over the period of post-war monetary difficulties?—It certainly is in existence at this moment as a temporary method. That is to say, conditions at this moment are unsettled, and it is in existence, and so far one cannot say what will happen with more settled conditions. I myself have read the conclusions of the Genoa Conference, to take one source of information, as embodying the idea that certain principal money centres should be recognised as specially charged with the duty of holding gold in large quantities in order to uphold the ultimate gold basis for all the participants, and that the less important centres should rely mainly on credits on these principal centres; and I should have thought it was very natural, having begun by a system of credits, that they might continue on that basis. I notice here clauses 2 and 3 of resolution 11 of the Genoa Conference. I will read them, if I may, and then pass the paper on to you, sir.

> "(2) When progress permits, certain of the participating countries will establish a free market in gold and thus become gold centres."

> "(3) A participating country, in addition to any gold reserves held at home, may maintain in any other participating country reserves of approved assets in the form of bank balances, bills, short term securities, or other suitable liquid resources."

I do not want to lay undue emphasis on those two passages, taken from their context, but they illustrate the general impression I got.

11,302. And such an expedient as the American credits which are at present held by this country may be looked upon as a temporary expedient?—I do look on that as quite a temporary expedient.

11,303. In paragraph 8 you express an opinion in favour of maintaining exchange by the issue of gold at par. In paragraph 9 you say, "I feel no doubt that the stabilised rupee of the immediate future should be a rupee expressed in sterling." I do not quite gather whether you would accept as preferable what is commonly referred to as a gold exchange standard, or a sterling exchange standard?—I think I have been somewhat ambiguous there, and I recognised that after this was put in. When I said here "I feel no doubt that the stabilised rupee of the immediate future should be a rupee expressed in sterling," I was rather thinking of the rupee being 1s. 6d. and of the importance of maintaining a steady relation with sterling in view of India's close trade relations with sterling-using countries; but when you come to look into it, as I have done in later parts of my memorandum, I think it is clear that there must be a stated price at which Government will accept gold in India—a stated price in terms of gold—an undertaking that they will give one rupee for so many fine grains of gold. If you also take the view which I have expressed in paragraphs 8 and 21 (*c*) of the memorandum—that gold should be exported in times of exchange weakness—you will also again have to express the amount of gold you will give for rupees in a fixed form. If you do both these things you have certainly got on to a gold standard as distinguished from a sterling standard so far as there is a material distinction between the two; and to that extent the sentence in paragraph 9—"I feel no doubt that the stabilised rupee of the immediate future should be a rupee expressed in sterling" has nothing beyond a merely superficial meaning.

11,304. You mean that the rupee should be stabilised by fixing it as equivalent to a certain weight of gold, and that that weight of gold may be conveniently expressed as such and such part of a sovereign?—Yes; you have put it exactly.

11,305. With regard to paragraph 10 of your memorandum, is there any practical utility, in your opinion, in a part of the forces for the maintenance of the exchange value of the rupee being held in the form of dollar credits? What is in my mind is this. Supposing it were necessary to use them, would not the first step which would have to be taken be the conversion of the dollar credits into sterling credits?—Yes, but that conversion would assist sterling. In paragraph 10 I have really thrown out an idea for consideration, on which I do not pretend myself to be able to adjudicate. I was rather struck by the suggestion in the memoranda of the Finance Department of the Government of India that one of the obligations undertaken under their currency system should be to provide external credits in gold or sterling as might be desired by the remitter. That seemed to me, if standing by itself, to be rather a meaningless thing. The real point, as it seemed to me, was whether you should or should not maintain your reserves in a form which gave you additional protection in the event of sterling going to pieces: I thought that unless you did that there was no particular significance in saying that you would give external credits in one form or another at option. My antecedent idea was that there is no sufficient reason to anticipate and provide for the crumbling of sterling. Then, I thought, as I said here, that, though from India's point of view, there may be no great need for such an anticipation, from the general standpoint of gold standard countries, and particularly London, it might be expedient that the whole strain should not be thrown on London. Therefore I have put forward this as an idea. I have in mind, for instance, some authority like the Governor of the Bank of England being asked to say whether he would like to see India's reserves distributed or whether they might all be equally in sterling as far as he is concerned.

11,306. Sterling credits would, in principle, be gold credits as long as London continued to be a free gold market?—Absolutely. I do not at all attach myself to any notion of some kind of inferiority in sterling. You cannot say that sterling is sterling and that the dollar is gold. If you call sterling the currency of a sterling standard you must call the dollar the currency of a dollar standard.

11,307. In paragraph 12 you say that you would recognise the sovereign as a legal tender. In view of your recommendation to stabilise the rupee at 1s. 6d., you wish the sovereign to be legal tender at the rate Rs. 13-5-4 to the sovereign; or does that create a practical difficulty?—Would the sovereign, in view of the very inconvenient rate at which it would exchange for rupees, have any practical utility as a legal tender?—It is, of course, a very inconvenient rate. I was not meaning there to express a judgment on the question whether a legal tender gold coin in India should be a sovereign or some special Indian coin. I should think, up to any time between 1900 and 1914, I should probably have felt a decided preference for a sovereign, but I do not know that I feel that now. I am quite prepared to read here "allowing tenderers the facility of getting gold converted into gold coin, and recognise the sovereign or some special Indian coin as legal tender." I am not in that passage attempting to pass judgment as between the two.

11,308. You say you would cease to issue gold except for export. Would there be any difficulty, under Indian conditions, in defining the meaning of the word "export," in ensuring that the gold should serve its purpose for international payment? For instance, it has been suggested to us that gold might be sent, say, to Aden, and then brought back?—I had anticipated the objection. I think it is the case that between April and December last the Bank of England would not issue gold except for export, so they must have felt able to face a similar difficulty. I really look on that kind of control as one to be exercised through banking authorities. It is a very difficult thing indeed for Government to apply a prescription of that kind. I recognise that; but I do think that the Bank of England in this country would manage somehow to prevent its authority being flouted and its intentions evaded and sooner or later I think any great banking authority would manage to do that; but it would do it by measures, the precise nature of which I cannot attempt to define, but which I imagine a Government could not employ.

11,309. I wish to bring out the leading points in your memorandum as I pass through it. I understand, with reference to your paragraph 13, that in criticising the proposals of the Indian Finance Department you would place a good deal of emphasis on the possibility of the replacement of Notes by gold?—Yes.

11,310. You say that this would make the whole scheme a gamble and reduce the result as to the amount of gold which would be required to carry out the scheme to complete uncertainty?—Yes. It might make it a very gravely large amount. The papers are very voluminous, but I think I am right in saying that never once throughout those memoranda from the Finance Department of the Government of India is that possibility referred to. Certainly no great importance is attached to it anywhere.

11,311. If my memory serves me right, in the course of oral evidence an estimate was put forward by the Finance Department allowing some 10 crores for possible replacement of active circulation by gold. Would that seem to you to be an adequate estimate?—No, not of the reasonable possibilities.

Practically speaking, the assumption that the Note will not be replaced by gold seems to me very like this assumption—that because a couple of pieces of paper like these, two 10s. notes, are more convenient to use than some clumsy lumps of coin weighing altogether several ounces, it may be assumed that the Indian will find it equally preferable to use a piece or two of paper instead of a moderately small coin of a kind which we all admire very much even in this country, and which he admires a great deal. But apart from that I put it on a broader ground. There is a good deal of common sense in the Indian's view that gold is first rate stuff. It has its value inherent in it. He probably does not understand, as a matter which he could express in economic terms, all about the depreciation of gold, but even if you allow for the depreciation, it is one of the finest things known in a world of fluctuating values. The Marwaris, who flocked to our Currency Offices from 1st August to 4th, 1914, by the 3rd and 4th had begun to take our gold away at the rate of somewhat near £1,000,000 a day. Events very much justified them. Looking at their material interests only, they were doing a very successful and farsighted business in getting hold of all the gold they could. If you present India, not only with facilities for using gold in circulation, but actually compel her to use gold in circulation because you take away the silver rupee, I think there is an appreciable chance of the Indian deciding to use gold in preference to Notes to a very large extent—an extent which might gravely modify your estimate of the amount of gold you require in order to introduce a gold currency.

11,312. For these and other reasons stated in your memorandum, and in an important footnote to this paragraph, you express the opinion that if a gold currency is to be introduced it should be done by the more gradual method of discontinuing the issue of rupees, and standing by until time has served to reduce the surplus of rupees outstanding, and thus, as I understand you, to reduce the problem to more manageable proportions?—And to give it a less irretrievable character.

11,313. What is the exact meaning of your word "irretrievable" in this connection?—You do burn your boats when you start selling rupees, and when you start very strong methods of withdrawing them from circulation, revolutionising the world prices of silver and so forth; and it would be very difficult, after five years of that, if you decided that the experiment was a failure, to go back and drop your idea of forcing a gold currency. If you merely let the rupee circulation gradually waste, as it were, and replace it by gold as long as people will take gold, one of two things will happen, I think. Either they will go on taking the gold; you will find they are not taking too much and that everything is working well, in which case you will get your system into effective operation. Or you will find that, when a certain point of satisfaction of demand is reached in regard to gold, a time will come when they really will want rupees for transactions, and you will have to coin them. Proceeding on those lines, you would be able to coin them. You would have done nothing drastic; you would not have been selling your rupees and breaking silver prices all over the world. You would simply have to admit that, after all, the rupee was a coin which, up to a certain extent, India did want, and you would proceed to provide it.

11,314. By this method, whilst reducing the silver rupee problem to manageable dimensions, you would wait and see, I understand, whether your gold reserves were accumulated by a natural process, without international disturbance, to such a point as would enable you with safety to introduce a gold circulation. If they were so increased then you would be able to do so. If they were not, then you would have to continue to wait?—I think so.

11,315. Or to abandon the idea?—Surely, am I not right that in that period, assuming prosperous trade and expanding trade, there would have been the usual demand for increase of currency? It would have expressed itself by a great demand for remittance to India. As Sir Basil Blackett says, you could, if you thought fit, compel that demand further to express itself in the form of additional imports of gold into India by stopping* Council sales and sterling purchases, and, under the policy you were pursuing, you would meet the demand for currency by passing on gold to the public. Meanwhile the effective rupees in the country would be wasting, either absolutely—or at any rate the quantity available, even apart from wasting, would be becoming a relatively smaller proportion of the whole amount of currency in use. So that it would naturally, in the end, sink into a subsidiary position, provided people were taking your gold as you issued it and were not pressing fiercely for more rupees.

11,316. I understand you would calculate that the scarcity of rupees produced by the cessation of further issues would have the tendency, at any rate, of bringing the hoarded rupee out into circulation and replacing it by other stores of value, thus dealing with one of the most essential difficulties?—Yes, I think it would have that tendency, but I accept the views of all the Currency Officers of the Government of India in the last few years, namely, that that tendency has been going on very rapidly already; and I should think it probable even if there was no change of system, that as long as India can, by trade channels or otherwise, import gold with perfect freedom, the amount of rupees left in the real hoards, as distinguished from mere little pocketfuls of savings, will ultimately become small. I need not say that I do not recommend any policy of introducing a gold currency. That is why I relegated that to a footnote.

11,317. I have only one question on the choice of the rate. You say in paragraph 16 "If the objection really means that after experience of a series of busy trade years followed by a deficient monsoon and slack trade a compromise rate, as it were, could be selected as fairly well adapted to good and bad years alike, it is, I think, wrongly conceived." Will you expand that argument?—Suppose you have a series of five or six reasonably good years, we will say—certainly with no great setback in any one of them. A rate of exchange, let us say, has emerged at the end of that time. Suppose it be 1s. 6d. It is a reasonable assumption—it is the only assumption you can make if you have to make assumptions at all—that prices have in that period adapted themselves to the rate of exchange which, at the end of it, you find in existence. That is a sound established rate of exchange for the conditions that you have been passing through and which are still existing. If you then have a catastrophic setback (and all these Indian setbacks are in the nature of catastrophes) the conditions are reversed in a moment. That rate of 1s. 6d. cannot be a good rate for the year, or year or two, you may have to pass through. But this would have been equally the case if you had had five good years, and a 1s. 4d. rate had emerged by the end of the period. Prices would have adapted themselves to that, on a higher basis than they would be with the 1s. 6d. rate, and when the strain came I think it would be substantially the same strain. I do not think it is correct in theory to think that you start a bad period after a prolonged good period in a more favourable position if you are at a lower rate than you do if you end the good period at a higher rate.

11,318. You would put it in this way perhaps—that one any rate is established, in the sense that prices are adjusted to it, it would be subjected to an equal strain, whatever it absolutely may be, by a series of bad years or other influences of the sort?

* May I add, in correcting my evidence, that I should think it very unfortunate if this step had to be taken and persisted in.
J.B.P.

—I think a substantially equal strain. I cannot say without more closely thinking about it whether it might be eight-ninths of the strain, or something like that, speaking purely in theoretical terms, but I think substantially you would have the same strain.

11,319. If prices had been adjusted to that rate, and if the reserves for the support of the rate were proportional to the support of that particular rate?—Yes.

11,320. In paragraph 18 you say "The maintenance of exchange is not an absolute obligation." Is not the tendency, on the other hand, in all post-war monetary reforms, to impose a statutory obligation on central banks to maintain exchange either absolutely or to the full extent of their available resources?—The categorical reply to your question is, yes. I recognise that there I am on rather difficult ground, and perhaps ground of which I have not great experience. I have in mind the possibility, the extent of which I cannot define, of banking pressure, unobtrusive restraint, and so forth. The really absolute unimpeachable theoretically perfect working gold standard I think is in practice a very rare thing. It always used to be said before the war that London was the only market where gold was absolutely free without any reservation of any kind whatsoever, and that even in New York that was not the case, and certainly it was not the case in Paris. I have heard it doubted whether even in London now it is really possible to get gold quite freely without any impediments whatever. I do not want to embellish that; it is not a matter on which I can speak with knowledge. But I am speaking in the memorandum from the standpoint that whereas in India exchange management has always been a direct Governmental function, and that what Government undertook to do it had to do in the spirit and also in the letter absoluely, yet there may be possibilities that, with banking management, a little more control and restraint in an unobtrusive way can be exercised which may sometimes ease over a difficult position. I have further in mind this—that perhaps it ought to be recognised that the world is still in many ways unsettled, and though a time may come when a gold standard, once satisfactorily established, ought not to be destroyed or to break down except under the most extraordinary conditions, such as revolution or war and that type of thing, yet there may possibly be slight departures from normal methods of working and an easing of the position required from time to time before conditions are fully settled. I do not know if I have expressed myself clearly.

11,321. The necessity for easing the situation in times of crisis is recognised in all currency systems?—In times of supreme crisis, yes.

11,322. But might not it be said that one of the principal criticisms to be advanced against the pre-war Indian currency system is that there was no authority which has imposed upon it, or which recognised as absolutely necessary, the obligation to maintain exchange, such as was recognised in the more perfected currency systems of Europe?—I fully accept that. I have said there was a fundamental restriction on our undertaking to support exchange. I am sure my friend Sir Reginald Mant will support me when I say that we considered at the time we were really doing very well in undertaking to support exchange with all our available resources. It sounded, and was in some respects, a very important departure; but it was not an undertaking continuously to *maintain* exchange. It may be described rather, as an undertaking which bound us, as long as we had resources, to use those resources in *restoring* exchange if exchange had fallen outside the gold point. I am all for a specific undertaking of the kind you described, which, in all ordinary circumstances, will act fully and efficiently; whereas the pre-war undertaking might, even in ordinary circumstances, have not acted efficiently. But I foresee the possibility that the position may have to be eased off in various ways, and I think people should be prepared for that on particular occasions.

11,323. Just to complete this point, in paragraph 21 (E), you say "In some way—and I can see no better way than a pronouncement of this Commission, for the matter cannot be codified—the need during periods of exchange crisis for a considered policy of deflation requires to be emphasised." Is it impossible to codify provisions of the sort? Are they not in substance codified by the provisions establishing the percentage and proportion of reserves in a central bank which is in control of the currency of the country?—May I dwell on that a moment? I daresay the phrase is not unimpeachable. It is very hard to say absolutely that the matter is incapable of being reduced to rule, but I can tell the Royal Commission what I had in mind. So far as the gold export transactions or the sterling credit transactions are immediately concerned, the export of gold taken out of the paper currency reserve, or a grant of sterling credit provided from the funds of the paper currency reserve, must necessarily involve a corresponding deflation, excepting in so far as the controlling authority—the Government or what not—has the power under the law of issuing Notes without replacing them by assets. If, in laying down the constitution of your paper currency reserve you prescribe that there shall be so much and no more of Government of India book debt, you have taken away from the controlling authority, as regards that item, the power of preventing deflation. It cannot, for instance, put *ad hoc* Treasury Bills, as they used to be called, into the paper currency reserve when it issues sterling at home. But there probably will be in the constitution of the paper currency reserve some provision for issuing seasonal currency, for instance, and possibly for issuing currency on penalty without a backing at all. In such a case that provision, which was meant for dealing with the conditions of the busy season, could be misused, at a period of extreme slackness such as is implied by the fact that sterling bills were in demand, to enable you to a certain extent to give out sterling payments at home without a backing of assets in India. If you had a true central bank I should be disposed to rely on that institution not to misuse the facilities which the terms of the Paper Currency Act might happen to offer. If you had not such an institution it might possibly be necessary that you should provide for that if you could codify it, or if you could not that you should declare, as I say here, that all these transactions ought to involve corresponding deflation. Now I come to what seems to me the rather more difficult point of the accretion of balances owing to the suspension of drawings. The Government of India have to meet every year—I forget what the figure is, but the last I saw was £28,000,000 as a normal figure. If the Secretary of State is not drawing, those funds accumulate in the hands of the Government of India's bankers. If they are made the basis for a superstructure of credit you might be really inflating considerably in one direction, while as regards the actual reverses you were effecting the proper deflation. There again, if you had a true central bank, that is precisely the kind of function I should feel we ought to be able to rely upon it to exercise wisely, but if you have not such an institution, it is possible you ought to provide for that contingency. I think that explains pretty well my whole meaning in these passages of the memorandum.

11,324. Supposing that the provision as regards seasonal currency to be, that additional issues of notes should be made only against trade bills, would not that be a protection against the risk you mention, since in view of the circumstances of seasonal slackness, trade bills would probably not be available?—Yes; I should think it would be.

11,325. (*Mr. Preston.*) Under head II, "Choice of Standard," you say that India should hold a consider-

able stock of gold. Then in paragraph 12, you subscribe to the view that India should not be hampered in obtaining the gold she requires. Then in paragraph 21, Section A, sub-section (*a*), you say: "Any gold or gold exchange system must be based on the two principles of (*a*) unlimited acceptance of imported gold at par (or unlimited issues of rupee credits at upper gold point); (*b*) unlimited issues of gold for export at par (or unlimited issues of sterling credit at lower gold point.") So that, actually speaking, those two factors reproduce what we have in the old gold exchange system of the lower export points, do they not?—Well, I find it a little difficult to answer that question. I did not realise that the selection of extracts was leading up to that rather comprehensive question. I do not think the system which I recommend is by any means just the system which we had before the war. In the first place, I recommend an unlimited support of exchange in a period of weakness. I say unlimited issues of gold at par, or unlimited issues of sterling credits. There is a fundamental difference, between that and the system of giving stated amounts weekly. That is one difference between the system which I recommend to-day and the system we had before the war. Then, secondly, the system we had before the war practically never worked with gold exports at all, and with some hesitation I have suggested that in supporting exchange under our new system we should rely mainly on gold exports. Thirdly, the system we had before the war was one in which we were constantly pouring large quantities of our own gold into circulation. We did that in very large quantities between 1910 and 1914. The system I recommend is one in which I do not propose that that should be done. So that when you ask me: Do not these three passages practically constitute the system we had before the war? I feel a little difficulty in saying that they do. The system I recommend is not the system we had before the war.

11,326. If I may modify that, referring to paragraph 21, sub-section (*a*) unlimited acceptance of imported gold at par, or unlimited issues of gold for export at par, in the old system our upper point was 1s. 4$\frac{5}{32}$d., and the lower one was 1s. 3$\frac{27}{32}$d., that is, India gave us local currency for gold sent in $\frac{5}{32}$d., and the understanding there was, was not it, when the exchange fell away at 1s. 3$\frac{27}{32}$d., the market should be able to get the Reverse Councils in order to steady up the fall in the exchange?—That was so. Your rates are T.T's, are not they?

11,327. Yes. During the time of the American crisis, as you will remember, there was a considerable amount of hesitancy at the beginning as to when India should sell the Reverse Councils?—The American crisis when?

11,328. In 1908 and 1909?—Yes. I think I was away at that time, but there were one or two occasions in which business men and the exchange banks felt some legitimate dissatisfaction.

11,329. That is right?—I accept that.

11,330. We pressed them at the time that the reverses should be sold in accordance with what an understanding of and what a working of our own gold exchange standard really would imply?—Yes.

11,331. The reason given at the time was—I am not quite sure whether it was the ultimate reason, but it was stated—that the crisis was really an American crisis, and that it did not concern India?—If that was stated, I do not think it is a thing we should state to-day.

11,332. I think that is what the hesitancy was due to?—I think we certainly had come to recognise by 1914, for instance—I think the Chamberlain Commission recognised it, but I am not sure whether I can trust my memory as to that—that there ought to be more immediate response (in regard to the issue of Reverse Councils) to a weakened exchange situation. There was a defect in our mechanical arrangements there (this occurred in August, 1914) in that it took a few days before we could get into motion. There had to be reference made to London, and so forth. Meanwhile, trade in India began to be very nervous.

11,333. Quite so?—I fully accept that.

11,334. It was only when the Government finally decided to sell their reverses freely that the whole position was retrieved and exchange was brought back to parity?—What period are you referring to?

11,335. When they commenced to sell reverses in 1908, do you remember the parity was restored in about 1910 and the earlier part of 1911? That is as far as my memory goes?—I do not know if there is any suggestion of cause and effect there when you say that a little delay took place in the beginning in selling the Reverse Councils, and that it required two years for exchange to recover.

11,336. I was just asking what the procedure was then?—There was a prolonged period of weakness about that time. There was the American crisis, as you have reminded me, and there was a famine period, was not there? However, I think I have answered the question—there was a prolonged period of weakness.

11,337. If we could now devise a method whereby that inherent weakness of the whole system should no longer exist, would that meet with your approval in any new scheme in so far as Sub-section (*b*) of Section A of paragraph 21, for the maintenance of exchange when that exchange falls to the lower point, is concerned?—The inherent weakness which you have referred to is, I understand, that weakness of the delay in responding to an incipient demand for reverses?

11,338. In order immediately, or as soon as possible, on every occasion when that exchange goes to a low gold point, that the reverses automatically, or that gold automatically should be obtainable for export in order to steady up the exchange?—That is most certainly my proposal. I propose that there should be a constant undertaking to be in force all the time so that anybody can go into the offices of the controlling authority and get his reverses whenever he wants them, whatever the state of the exchange is.

11,339. A suggestion has been made that conceivably the note issue might be changed to a gold mohur note issue, and that that note issue should carry with itself the obligation that the presenters of notes should always obtain gold or gold funds for export, which naturally would always be at a lower gold point. Would that meet with your approval?—Taking the second part of it first, that the holders of these gold notes——

11,340. Gold mohur notes?——should at all times be entitled to receive gold for export?

11,341. Yes?—That would not meet with my approval, because I would not limit the right to gold for export or sterling credits, whichever your system was, to holders of a particular form of currency. Of course, an undertaking to give gold or sterling credits would be subject to a limit of minimum amount. That, I should think, everybody would propose for such a purpose. You do not want to put the business of getting sterling credits into every private hand for any trumpery amount.

11,342. Say 10,000 mohurs?—Subject to such a minimum, I would let anybody get gold for export, provided he can hand in any form of legal tender to the same amount. I see no advantage, but rather a disadvantage, in limiting it to a particular form of tender.

11,342A. The object would be to get away from any Resolution or any statutory form of Resolution. It would be a right which the note carried with it, so that at no period, in the event of weakness in the

exchange position, could any Finance Minister or anybody delay for one moment the putting into force of that process whereby exchange would be held at the lower point and prevent it falling further.—I am sorry, but I am not for that. You weaken your own undertakings when you guard yourself against breaking them by saying that they shall only hold in the case of the tender of a particular form of currency. If India is to have a real standard, whether it is a sterling standard, or a sterling exchange standard, or a gold exchange standard, or a gold standard, whatever standard she has, she cannot possibly maintain it, in my view, except by an unlimited undertaking to honour any form of her own currency when it is presented with a demand for external credits or for gold export; I would not have any limitation of that.

11,343. Not on the notes alone as a note; but then supposing these particular notes are freely convertible into rupees, and rupees into these notes, would that alter your views?—No, I am afraid it would not. I am utterly opposed to any discrimination.

11,344. Would not that amount, when the note is fully convertible into rupees, to, practically speaking, obtaining the powers of getting gold for export?—If it does amount to it, the whole proposal is otiose; the whole thing is superfluous if it does amount to that.

11,345. The object really of the note claiming power for gold is to remove any hesitancy on the part of the ruling authorities or delay in permitting that particular part of the mechanism to operate immediately in the case of disaster, the disaster being the falling away of the exchange to the export point.—There is no scope for pretexts if you have given an unlimited undertaking, and I cannot see any advantage associating your unqualified undertaking to support exchange with a preference to the holder of a particular form of legal tender currency.

11,346. There are only two forms of legal tender currency, the note and the rupee.—As I understood the nature of the suggestion which you were putting to me, there would be three forms: there would be the rupee, the ordinary note as it is to-day, and the special note, backed by gold, entitling the holder to external credit.

11,347. I am sorry if I did not make that clear, but I am assuming the present note should be changed, and that all future notes should be gold mohur notes —that is at a later period—and not two species of notes.—That all future notes should be so called?

11,348. Yes. You see, the object of gold mohur notes is getting with absolute certainty an undertaking carried by the holder of the note that he can go and obtain the gold for export without waiting for the Government to say: "We will sell one day a week," or "We will sell half a million a day," or "a million a day"; that he can obtain freely such gold or gold funds as may be required for export when wanted; and in such quantities as those presenting the gold mohur notes require.—Either your note is freely exchangeable for rupees or it is not. If it is not, you have discrimination, and I should think it very mischievous indeed to have a note which was not freely exchangeable for rupees.

11,349. This note is exchangeable for rupees; it will be freely convertible into rupees.—If it is freely exchangeable for rupees, I cannot see why, of two positions which I will proceed to define, the first is better than the second. The first position, (*a*), is this: that a man holds these notes, and can get gold for them, and that the holder of rupees, since he can get these notes, can thus get gold circuitously for his rupees. The second position (*b*) is that any holder of notes or any holder of rupees can get gold for them directly. They seem to me to be identical positions.

11,350. Exactly.—Except that you have established what seems to be a discrimination, which, with great respect to your suggestion, does not exist, as I think, but will be thought to exist. To create a discrimination which is not a real discrimination, and is, therefore, superfluous, can, I think, have no good effect, and may have a bad effect. I have really tried to answer you. There may be something which I have not yet appreciated.

11,351. The point of the claim is the instant right to obtain gold for export without waiting, or without interference from any authority.—But the thing which guarantees that right is the undertaking to give the gold for export, or to give sterling credits. You have only got to produce a Statute or a Resolution which embodies that undertaking and your claim or right is as complete as if you produce a note with that undertaking printed on it.

11,352. Going on then to Sub-section (*a*), "Unlimited acceptance of imported gold at par," would your method for gold going into the Currency Office be subsequent to the requirements of the Government in India having been provided for; or, in other words, that when the Council Bills have been fully sold, that all future additions to currency should be through the paper currency reserve by gold shipped from this side to India.—No, that is not my method. My method is to have a constant undertaking to accept gold at par. Anybody who wanted to tender gold to the Government could do that at any time; but I should effect the remittances, the Secretary of State's drawings, by bills at rates which in practice (in spite of that undertaking subsisting the whole time) would result in trade financing itself certainly to the full extent of his drawings by bills rather than by importing gold and tendering it to the Government.

11,353. You would make the scope of the import of gold wider than I have just suggested by allowing gold to be shipped to India at any time and at the statutory price, which is the top gold point, for shippers of gold always to obtain currency at the import point?—Well, they would obtain it at par in India.

11,354. Exactly, which is the import point. You would take that statutory undertaking at all or at any times?—Yes.

11,355. With regard to the absorption of rupees, suppose the Government of India's hoard was 75 crores of rupees, what should we allow as absorption? Take India's trade as it is to-day: What idea have you, if any, or what would your opinion be, as to what the annual absorption of silver currency from that 75 crores might be supposed to be, over a period of ten years, say?—You are supposing 75 crores in hoards to-day?

11,356. No, in India, in the Currency Office. I have called it the Government of India hoard?—I had mistaken your meaning.

11,357. Let us call it the Government of India hoard; for what period do you think that being held as reserve would provide for the country's absorption of rupees?—Well it is very hard to offer an opinion on that point. I suppose really the Commission are more familiar than I am with the pre-war absorption. I think it was about 9 crores.

11,358. (*Mr. Preston.*) 9 crores per annum?

11,359. (*Chairman.*) We have the figures for absorption in the past years at Appendix III of the historical memorandum.

11,360. (*Mr. Preston.*) Thank you very much?—It is about 9 crores, I think.

11,361. Yes.—You have to-day a very great increased willingness to take notes. All the evidence is (and I accept it) that there is a greatly decreased tendency to put rupees into hoards. The tendency is to put gold into hoards. Looking at those facts, I think it would be very rash to assume an annual absorption of anything like 9 crores in future. One cannot dogmatise about a point of that sort, but the idea which is in my head, if I have to express an anticipation, is that it would be more like 5 crores than 9 crores. Then you spoke of exhausting what you call the Government of India hoard. The hoard

is only that portion of the rupee holding that is in excess of normal requirements for securing interchange of notes and rupees—that process which is constantly going on. We know by experience that if really pushed the Government can work on a very low figure; but that kind of pushing and anxiety is not desirable. Having regard to the very high volume of transactions which you seem to have in India to-day, I should certainly be disposed, from the point of view of practical convenience, to keep something like 40 crores at any rate always by you in the future as compared with a figure of more like 20 to 30 crores which we thought of before the war. So that if I have to make estimates on such points, I would say you may get down to a normal holding in six or seven years. Of course that does not apply to the lowest point reached in the busy season. At a particular moment in the busy season you may have got a great deal taken up, and the rupee balance may go much lower; but many of the rupees so taken out would return in the ensuing slack season. Apart from much seasonal fluctuations I think that for several years to come there will be a period every year in which there will be some dedundancy of rupees in your paper currency reserve.

11,362. Then we may take it if we were to consider this position from the point of view of prudent traders, in your opinion it would be advisable for us to look upon these 70 odd crores more in the sense of a reserve fund for requirements in the immediate future, rather than adopt the method suggested from India, of selling those stocks off?—I am in general sympathy with what you say on that point. Of course it is a wasteful proceeding selling rupee silver which you may have to buy again after a few years, but at the same time I think the Government of India have brought forward a point of value. Your experience and mine goes back to a time when one's credit for soundness and common sense would have been risked if one had talked of such a thing as boiling down rupees. It was thought to be a very bad monetary form indeed. I think you would agree with me on that. But if you have great changes in popular habits and a prolonged period of depression following a period of great expansion of rupee circulation, I do think there is something to be said perhaps for selling some of your surplus rupees even though it may, considered as a speculation, involve some eventual loss. For some years in the paper currency reserve in India we have had the spectacle of the paper currency reserve holding—I think at one time it reached an amount of 90 to 100 crores of rupees, when certainly 40 crores would have been ample for maintaining the convertibility of the note. From the point of view of stabilising exchange and more rapidly effecting deflatation, which tho extraordinary post-war conditions left as a burden on most countries, it might have been well to have got rid of some of that silver. I would not veto such a suggestion.

11,363. In pre-war times it used to be rather the policy to endeavour to work round on a stock of about 20 crores of rupees?—Yes. I put it just now at 20 to 30. I forget the exact figure. We tried to start the busy season with a high balance, and allowed it to run down towards the end of the busy season.

11,364. So that if we take India's trade to-day, which really is twice in value what it was in prewar times, you would look upon a reserve of 40 as more suitable to the occasion?—Yes; I am not dogmatic; about 40 to 50.

11,365. So that as we have only 75, it would not leave much margin for selling?—No. You have got prices adjusted and trade re-established, and I take it you may now expect the demand for rupees to revive.

11,366. You do not think we want an amount of further rupees above 40 to 50 crores?—No: the position now is that, though you have got a redundant stock still, you are at the end of your period of depression, I hope, instead of just beginning it. This would not be the time, apart from the fundamental changes in the system which have been proposed, for starting selling redundant rupees.

11,367. You think what we ought to do now would be to have round about 40 crores of rupees as a standing stock?—Yes.

11,368. (*Sir Maneckji Dadabhoy.*) In the course of your examination you found fault with the Government of India in laying too much emphasis wrongly on the currency side of the gold standard?—I expressed a different view as to how the emphasis ought to be laid, yes.

11,369. You left the country about 14 years ago, I understand?—You are not counting periods of leave which I took, are you?

11,370. No. I left the country finally in May 1917, between 8 and 9 years ago.

11,371. You will admit that since you left India things have moved very rapidly in that country?—Yes, certainly.

11,372. Just before the war we had the Chamberlain Commission Report, and then the Babington-Smith Committee's Report, which was issued in 1919, and on which you were one of the members?—Yes.

11,373. The result of both those reports have been found fruitless and abortive?—Well, I do not know that. You must not think anything I may say in answer to your question when you complete it, includes those particular remarks. But I do not want to argue it at all. You are giving a recital which is leading up to a question, I think?

11,374. Yes. I will put it in this way. Tho main prognostications of the Commission were not fulfillod. The dislocation after the war was so serious also that the Government of India had to issuo Ordinances and pass restrictive legislation for the import of gold into India, for the transport of gold in the country, and for the dealing with rupees in the country, and in other directions. Do you think in view of all those circumstances the desire of the Government of India now to give some stablo form of currency to meet the desire of the peoplo is either extravagant or reprehensible?—I would just like to allude for a moment to something you said just now. We are very old friends, and you will understand I am not taking exception to what you said.

11,375. No.—I would just like to allude for a moment to your remark that I left India a long timo ago. It has been no desire on my part to come and give evidence here. I have been invited to do so by the Commission.

11,376. We are very grateful to you for giving us your views.—I am sure not only yourself but the whole Commission will understand that whatever I have said here is merely by way of frank response to what I tako to be the wish implied in the Commission's invitation to me to givo evidence.

11,377. (*Chairman.*) I am sure the whole Commission feels that the evidence from one like yourself who has such long experience and such intimate knowledge of the circumstances, is of the greatest possible value.

11,378. (*Sir Maneckji Dadabhoy.*) I quite agree?—Your question was whether I think the Government of India were wrong and reprehensible in desiring to give India a stable currency?

11,379. And the people?—Yes, and the people. I think that so far from being wrong and reprehensible they are right, and if it were my function to do so, I should say they are greatly to be commended for desiring to give India a stable currency; but where I differ from them is in thinking that stabilty of their gold standard, which is the thing you want to have stable, will be enhanced to any material extent by the institution of a gold currency; that is to say, by the provision that gold

shall be the full legal tender currency in the country and adequately supplied for that purpose; and the further provision that the rupee shall not be full legal tender. I think those proposals do not contribute materially to the admirable aims which the Government of India have in view in proposing a stable standard in India.

11,380. Quite so; but then some sort of beginning would have to be made to attain perfection later on in the system.—The full idea of stability, you mean?

11,381. Yes.—But I think the full idea of stability can be attained without a gold currency.

11,382. Without a gold currency?—That is my view.

11,383. In paragraph 4 you also stated that: "India cannot expect an equal voice in this determination of common policy, but she should get what hearing she can." What do you mean by this reference to "hearing"—which hearing, and from what parties? Is it from European countries, or from England, or the United States, or what are you referring to?—Perhaps that is not a very good phrase for a scientific document, if it were scientific, which I can hardly pretend; but I take it that it will be the practice in future for the controlling authorities of the great gold standard systems of the world to co-ordinate policy, or to deliberate together about policy and acquaint one another with their views from time to time, at any rate for some time to come. I desire very greatly that India shall not be wholly excluded from any such collaboration if she adopts the gold standard and if she takes her share in the burden of the gold standard by maintaining a stock of gold. I say in the passage which you quote that she cannot be an equal partner because you would admit, I am sure, as everyone must admit, that she is not from the monetary standpoint so great a factor as London or New York.

11,384. Of course not.—But I wish her to have all the significance attached to her opinion that her economic weight deserves. I am entirely with Indian thought in wishing India to stand on her legs and be as big a figure in the monetary world as her economic power entitles her to be.

11,385. Quite so; but the co-ordination that you refer to is that which will subsist in case she obtains a gold standard in the future; but was she ever invited in the past to co-ordinate in the settlement of the world's monetary policy?—Well, there was no regular practice, as far as I know, of the kind of co-operation that has arisen since the war in very special circumstances and is still on an absolutely informal basis. So that though I venture to talk of it in this Commission, I have no authority for so talking beyond the resolutions of the Genoa Conference on the one hand, I think I am right in saying, and what I see in the newspapers on the other. I do not profess to be on the inside in the London monetary world at all.

11,386. You have also given two extracts from clauses 2 and 3 of the Genoa Conference. The Genoa Conference was summoned for the settlement of European monetary problems. At that time there was no question about the monetary problems of any other country, or of India. Am I not right in my assumption on that?—It is a little difficult to reply to that. Perhaps you will take this as a sufficient answer. It was undoubtedly primarily a matter of European monetary reconstruction that was there considered, but the whole world was before the people that sat there. I hesitate to give you the categorical reply you want because, for instance, no one sat there in ignorance of the special position of the United States, and it is, in fact, the United States which is co-operating in this informal consultation as regards monetary policy from time to time.

11,387. With regard to this equal voice in determining a common policy, do not you think India with her favourable exports and with her balance of trade is entitled to an equal voice in the determination of monetary policy?—Well, she is not a great money centre. She has not the power of influencing world monetary conditions that New York and London have. I think I have really stated with some precision, so far as such an indefinite matter admits of precision, my real view as to India's claims in the matter, and I do not think I can get it very much more precise. When you say entitled to equality, I think you open up points which might lead us into a lot of debate.

11,388. In paragraph 11 you state: "But however that may be, I think the great advance which India recently has made in the use of notes should preclude the idea of so retrograde a step as the forcible introduction of gold." In common with Mr. Kisch you have used those words: "forcible introduction of gold." Am I to understand this only has reference to taking away silver rupees from circulation, or that it has any other extended meaning or import?—I can assure you that the identity of phraseology—I do not remember seeing the passage in any memorandum of Mr. Kisch's— is quite a coincidence. Fundamentally, the present proposals of India are for the forcible introduction of gold as distinguished from the policy, sometimes half-hearted and sometimes vigorous, which was followed by the Government of India before the war in passing gold into circulation in the hope that it would stay there. The Government of India are now proposing to adopt a systematic policy which will in course of time lead to the step of declaring that the rupee is not full legal tender. It is in that sense that I describe one policy as a measure of forcible introduction of gold, while the other is a measure calculated to introduce gold into circulation.

11,389. That is the view you take?—Yes.

11,390. In the footnote to paragraph 13 where you refer to gold currency, you say: "If a gold currency had to be introduced it is a question whether this could not be done with less risk and upheaval and also cost by discontinuing rupee coinage and issuing notes and gold until normal wastage and the growing aggregate demand for currency has reduced the extant rupees to a quantity only sufficing for everyday retail requirements." In other words, as I understand, you are opposed to a gold standard, because you stated that if India can obtain the gold and can get the stocks, and so on, and can manage it without causing more risk, then India could have a gold standard. I would like you to develop this argument a little. I am afraid there is a misunderstanding.

11,391. (*Chairman.*) I will remind you that when I asked Sir James questions with reference to this footnote to the memorandum, he said this was subject to his general view that he was not in favour of gold currency.

11,392. (*Sir Maneckji Dadabhoy.*) He is not in favour of it, but he as also stated that he does not object to it if India can have stocks of gold and is in a position to maintain them.

11,393. (*Chairman.*) I understand from Sir James's answer to my earlier questions, that he was not in favour of gold currency under any conditions.—That was the intention of my answer. Perhaps I may explain this. I was doubtful about putting that in at all for the fear of creating the very misunderstanding which Sir Maneckji seems to have entertained. It was for that reason that I put it in a footnote. I should probably have omitted it altogether except that I had used certain words to which the footnote is appended: "Rather than of the tentative statesmanship essential to such an enterprise." I felt I ought not to leave the word "tentative" entirely in the air. It was all very well criticising the Government of India for not being tentative, but I had to attach a meaning to the word, and so I put in that footnote.

11,394. (*Sir Maneckji Dadabhoy.*) I accept your expanation, but I say supposing that you have to do it, what would you say then? I wish you to develop that aspect of the case.—If the Royal Commission came to decision to recommend the introduction of a gold currency, then, though I personally, for what my opinion is worth, should be utterly and emphatically opposed to such a proposal, I would desire to put before them the alternative of considering whether a less drastic method of introducing a gold currency would not be preferable.

11,395. I have only one question in connection with ratio: You have recommended in paragraph 14 that the rupee should be stabilised at 1s. 6d., the rate already established. This ratio, as you are aware, has been running since about October, 1924. Do you think that prices have adjusted themselves to this ratio during this short interval of eighteen months?—Well, I would say in reply to that that the emergence of the 1s. 6d. rate is merely the culmination of a process which has been going on very steadily for some time. I suppose one may take December as, roughly speaking, the time of special pressure and high exchange. In December of 1922 the rate was, rounding the figures slightly, 1s. 2⅞d.; in December, 1923, the rate was 1s. 3⅞d.; in December, 1924, the rate was 1s. 5¼d.; in December, 1925, and now, the rate is fractionally over 1s. 6d. It is the natural culmination of a process which has been going steadily forward without check. I think, as regards a possibility of a fall in the exchange (which, I presume, is what is in your mind though there is also the possibility that the rate of 1s. 6d. may be regarded as to low a rate) that if this Royal Commission had been appointed a year later, and the rate was still 1s. 6d.—it would not have gone appreciably above it, because the Government are preventing that—then it might have been justifiably felt that the 1s. 6d. rate was more an established rate than it can now be felt to be. But the appointment of the Commission, of course, changes the whole situation. It put you to a definite choice of either (1) stereotyping the present rate, or (2) naming some other rate to which you will work, or (3) naming a policy of temporarily waiting and seeing. If there is some possible ground for criticism of the present rate on the ground that it has not been established for a long enough time, I should consider that as completely overborne by the utter mischievousness (as I think, if that course can be avoided without unsoundness of judgment) of actually naming and recommending a lower rate than that which is now in force, or, alternatively, adopting a wait and see policy. It is a very serious thing to announce to the world that the rate which does seem to the whole world established, at any rate in the practical sense, whatever may be thought from the scientific point of view, is a rate that you do not mean to maintain, and that you are simply waiting for it to fall if it can. That creates a very bad situation, I think.

11,396. Those are your reasons for adopting this ratio, but my question was: Have the prices sufficiently adjusted themselves to this ratio?—Well, I have given you my opinion on that, I think, from what I hope is the most practical and helpful standpoint. If I were in the responsible position in which the Members of this Royal Commission are, I should look on 1s. 6d. as a sufficiently established rate to justify its being recommended as a rate for future adoption.

11,397. Then this would be a sort af compromise rate?—No.

11,398. You say "No."—When you say "compromise rate," you mean a compromise between (*a*) and (*b*), but I do not know what your (*a*) and (*b*) are.

11,399. I thought we were to infer from what you have just stated in the circumstances that it would be a compromise, and it would be a judicious policy to adopt this 1s. 6d. rate.—What is the compromise between? I do not wish to be dialectical, but I do not understand the sense in which the word "compromise" is used there.

11,400. Between any lower and higher rate.—I do not think the word "compromise" really has appropriateness there. In preference to the alternative of recommending a lower rate and in preference to recommending a higher rate—I would say that.

11,401. You put it in that way—in preference. Was not the continuance of this rate due to the adventitious circumstance of five good harvests?—The providential circumstance.

11,402. It has been providential?—Yes. If we had had bad harvests, and if the governing authorities of India had been caught by a serious depression of trade at a time when their future policy was not settled, then I agree with you that the rate of 1s. 6d. would probably not have been maintained; it would have dropped again; but I think that any rate will remain adventitious in that sense, and until you have a policy of supporting it, it will not be maintained when you have a bad harvest, but it will fall.

11,403. Then, in your opinion, the chances of maintaining this rate are greater than maintaining any other rate?—You are taking me on theory, as I understand it.

11,404. I am taking you on your own conclusion.—My practical opinion is that you can maintain this rate. My theoretical opinion is, subject to your amassing proper reserves in advance and allowing time for prices to adjust themselves, that you can maintain any rate you like. I would like to keep within the points of practicality, and we will not talk any more about 2s., but I think you see what I mean. I think if you would like to go down to 1s. 4d., you can get down there, and you can maintain exchange there. If you like to go up to 1s. 8d., just as the Government of India has successfully and unobtrusively gone up to 1s. 6d., I think you could do that, and I think you could maintain exchange there.

11,405. In paragraph 20 you refer to Indian conditions, and you say: "I deduce that Indian conditions are somewhat specially adverse to the efficiency and smooth working of a gold standard system." What conditions do you specially refer to for this statement?—I think that really is explained by the preceding paragraph, but what I have in mind before everything, as I said at the beginning of my evidence, is the banking and discount policy side of the question. I think that the tendency of thought and experience of monetary questions has been to pass away from overwhelming emphasis on gold in reserves, and gold in currency, and gold realisable from credits, to the banking side, and the discount policy side, and the regulation of credit and prices. You cannot have that system in full vigour unless you have an organised and interlaced banking system throughout the country. "Interlaced" is not, perhaps, a good word, but I mean what I may call the pyramidal form of organisation: you must have eventually at the base a great extension of banking facilities, so that credit operations, and not cash operations, are the main feature of the country's transactions. You must have that banking system at the base, co-ordinated up to some central directing point at the top, and then you have the possibility of effective discount policy. I do not pretend that the ideas I have expressed are original so far as they are correct, nor do I profess to be an authority on banking matters, but that is my conception of the situation. That is where I think the Indian position is still weak. I think it is in that direction that possibly it may be the privilege of this Royal Commission, if the views I have expressed are the right views, to do fundamentally good work for India. I think that answers your question.

11,406. (*Sir Henry Strakosch.*) May I take you to the last part of your Memorandum, where you deal

with the question of establishing a central bank. Right through your Memorandum you seem inclined to recommend the establishment of a central bank, and also you have said so in the course of your evidence to-day; but you conclude in Section VII paragraph 24 of your Memorandum that your inclination is to postpone the true central bank for the present. May I ask why you recommend that a central bank should, for the present, not be established?—You will understand that this Memorandum is the first shot (as it were) at a co-ordinated expression of one's views, and that one gets to see things more clearly as one thinks them over, even afterwards, especially under the stimulus of discussion. Before I specifically answer your question, I would like to say, as I have been trying to say in effect all through my evidence, that there are two points that I take on this banking question: one is that if a live, effective, true central bank can be established to-day in India, that is far the best solution, and I look with some apprehension on the endeavour to transform a commercial bank into a central bank without any radical restriction of its commercial functions; but I have not felt that I had the authority or knowledge to come before this Royal Commission and say I recommend you to establish a central bank, because I have not the authority and knowledge to say that a central bank in the limited Indian money market would have enough vitality and enough work to do, and could function efficiently. That is my first point: I want a central bank, but I do not regard myself as a person who has the right to say that there can be a central bank. My second point, put forward with some hesitation, is that I am so clear as to the prime importance of the development of banking throughout India, and of the transfer of monetary administration and remittances, and so forth, to banking control, with whatever degree of Government association may be required, that if the central bank is not possible, I would sooner run such risks as attach to making use of that splendid agency which already exists in India, though it is not a true central bank, than hang up the whole thing altogether. Now, coming to your particular question, when I say "My inclination is to postpone the true central bank," I think it is a sentence I should like to amend; but, taking it as it is, the position was that I was under the impression that there was some doubt as to whether it is possible to establish a central bank in India, owing to the limited character of the work available for it, and so on. So that if I had to express an opinion one way or the other, I was disposed to say, not feeling sure that a central bank can be usefully established now, that my inclination would be to try and do what we can with the bank we have. I think that makes my position clear, though it is a little hesitant.

11,407. If I understand you correctly, you would rather hand over the management of the currency to the Imperial Bank as it is at present constituted? —If we cannot have a true central bank.

11,408. If we cannot have a proper central bank? —That is right.

11,409. Your hesitation about it is founded on a doubt whether, with the present banking organisation, a central bank would have its place in the country?—Yes.

11,410. You rather think that a banking organisation should be built up first, and the crowning-piece should be the central bank?—I want the central bank to be brought in as soon as it can be done, but it obviously cannot be brought in until banking organisation has reached a certain point. Whether that point has been reached or not, I do not feel I have authority enough to pronounce.

11,411. Let us suppose, for the purpose of this examination, that a "pukha" central bank is established: you would recommend—you refer to it twice in your memorandum—that the Government of India, and the Secretary of State, should be closely associated in determining the higher monetary policy of the bank. Dealing first with the association of the Secretary of State in London with a view to carrying out the recommendations of the Genoa Conference, may I remind you that the Genoa Conference also recommends that "banks, and specially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance."—Well, there is rather a misunderstanding there, for which I am entirely responsible: At the end of my Memorandum I come quite definitely to the distinction between what I call the true central bank, the pukha central bank, and a great banking institution enjoying Government support but not a true central bank. In the early part of my Memorandum I had not that distinction prominently in mind: I had chiefly in mind the Imperial Bank invested with these functions. The general tendency of what I say and what I think is that the more we transfer work to the Imperial Bank of India, without any radical modification of its constitution, the more necessary it is that there should be visible Government association with that bank; but if, instead of such an arrangement, you set up a true central bank, then the particular standpoint from which I recommended close Government association would disappear. That question would have to be approached from a slightly different standpoint. One point one has to consider in the circumstances of India is the personnel available: you have distinguished bankers, and you have distinguished commercial men in India, but whether you take officials or whether you take non-officials in India, or whether you take both together, I do not believe there is such an abundance of first-rate men that you can afford to dispense with the best stuff you can get. I think the best central bank, as regards non-official personnel, which you could start in India would have to be, probably, for some time, strengthened by the best personnel from the official element. Similarly I think if you are considering the converse case of Government management of the currency, there is no doubt at all that the best official element would be strengthened by association with it of the best commercial element. You cannot afford to waste good men in India, because you have not got too many. That is one standpoint. Another is (though I am aware of that Resolution of the Genoa Conference which you have just cited to me) that I understand it is the practice in regard to State Banks that the Government should have a certain voice in the appointment of the higher direction of the bank. I think (though I am subject to correction there, because I do not know much about the American system) that it is the case that the Secretary of the Treasury in America is Chairman of the Federal Reserve Board.

11,412. In other words, what you have in mind is, if a real central bank were established, the appointment of the Governor, and Deputy-Governor—and possibly the appointment of a minority on the Board?—Yes, I think I would say that.

11,413. I think you suggested that if the management of the currency were handed over to a real central bank, it would nevertheless be advisable to retain the present custom of keeping two reserves, the paper currency reserve and the gold standard reserve, as they are to-day. Do you see any particular virtue in keeping two separate reserves? —No, I do not. I told the Chairman, in answer to a question, that I do not profess to have come with cut and dried proposals on every point, but if you have got your real central bank I can see no sufficient justification in handing over the paper currency reserve to the central bank and the gold standard reserve to the Government, which I think was the proposal that Mr. Keynes made in his proposals for a State Bank in 1913—many years have gone by since then, of course—or in handing both over to the central bank and maintaining them

as separate reserves. There is a little mechanical difficulty in lumping the assets of the gold standard reserves into the paper currency reserve at this moment, because the assets of the gold standard reserve exceed the uncovered assets of the paper currency reserve, so that you would actually get a surplus strength. I think the book debt portion of the paper currency reserve is 40 to 50 crores, and the size of the gold standard reserve is 50 to 55 crores. What I should be disposed to do—it is no solution, but it is merely a form of putting it on paper—is to settle first what you intend to have in your paper currency reserve as a permanent uncovered issue—the book debt portion—and put in the assets of the gold standard reserve to replace the rest of the present book debt. Say you take 20 crores, and say the uncovered issue is now 45 crores, put in 25 crores of the gold standard reserve so as to make good the reduction of the book debt. Then the only use you could have for the remainder I think would be simply to hold it to feed the paper currency reserve for the further support of the exchange eventually you would take out rupees when those were redundant, and replace them in the paper currency reserve with gold, or securities so that the paper currency reserve would come before the monetary world of India as the main reserve which guaranteed the convertibility of the note and the maintenance of the exchange, and the surplus assets would simply be so much surplus assets.

11,414. That is only a mechanical way of presenting it. I said so.

11,415. Your view boing that if a central bank is ostablished, a single reserve would do the work equally as well as, in fact better than, the two separate reserves?—Equally well, and with less obscurity.

11,416. Because both reserves serve to maintain the external valuo of token money?—Yes.

11,417. One the note and the other the rupee coin. Well, I do not like to make a sharp distinction liko that. The assets of the paper currency reserve are so largely in fact maintained to support the external value of both the notes and the rupee that I do not like to make any distinction between notes and rupees in that respect; I think it is a wrong distinction.

11,418. (*Sir Reginald Mant.*) In paragraph 12 of your memorandum you say: "I think that the Government of India Memoranda are right in seeking for some clear decision as to the future place of gold in the Indian monetary system. We should work definitely towards a gold currency, or definitely adopt as normal practice the use of gold exclusively for supporting exchange." I gather from your memorandum and your evidence that you are in favour of the second alternative?—Yes.

11,419. You would use gold exclusively for supporting the exchange?—Yes.

11,420. I want to ask you why in that same paragraph you say that you would " allow tenderers the facility of getting gold converted into sovereigns; and recognise the sovereign as legal tender." It seems to me that is not quite consistent with the object which you favour of using gold exclusively to support the exchange?—I think there is no inconsistency. By the words " the use of gold exclusively for supporting exchange " I mean the use of gold in our reserves. You will see the same point put in Mr. Kisch's memoranda. It seems to me that considering the enormous extent to which gold is held and freely handled and interchanged in India that it must be for many people a considerable convenience to hold gold in the form of a unit which had a definite weight and definite fineness and definite value. It could always be used as bullion if they preferred it, but on occasion, whenever they liked, if it is made legal tender, and if gold that is brought in is minted, as far as people desire it to be minted, its holder, whoever he is, can get the maximum advantage out of it. That is all I mean. I am not frightened of too much gold getting into circulation in that way. The suggestion I make here is not an attempt to satisfy aspirations for a gold currency. It is merely an attempt to give people in India a certain facility in respect of the gold which they are, in fact, constantly holding.

11,421. In making it legal tender you provide for the use of gold for currency as well as for export in your scheme.—Being legal tender gold put by originally for saving could be readily used at any time *e.g.*, to pay a debt. It would not be necessary for the owner to sell his gold first in order to get currency.

11,422. You are not apprehensive that that would stimulate the use of gold as currency, which is an object you do not wish to achieve?—I do not wish to stimulate the use of gold as currency, but I do not object to people so using it if they like. I do, as I say, subscribe to the view that India should not be hampered in obtaining the gold she requires. I might have added, in using the gold she requires.

11,423. As currency?—As currency.

11,424. In paragraph 21, Section E, you refer to the question of deflation, and in your answers to the Chairman you elaborated that point?—Yes.

11,425. I gather that your view is that there should be a legal obligation to provide foreign exchange at all times?—Yes.

11,426. Whether the agency is the Government or a central bank?—Yes.

11,427. Your anxiety is chiefly to insure that the provision of that exchange should secure the necessary deflation?—Yes; that is ono of my anxieties—one of my wishes.

11,428. We have had the contrary anxiety expressed before us that if we impose a cast-iron obligation of that kind deflation might, at timos, cause severe monetary stringoucy, and some safeguard or safety-valve should bo provided. Have you any views on that point?—I have very strong views on the point. You said: " A cast-iron obligation of that kind "?

11,429. A legal obligation to provide foroign exchange without limit in exchange for internal currency.—I am sorry I had not quite understood you. May I add just one correcting observation, and then say what I do now understand? I meant in my answers to the Chairman to explain that I did not think the obligation to deflate could be cast-iron. I want that to be understood. However desirable deflation may be at a time when you are providing reverse remittances, I do perceive that you probably cannot have it absolutely cast-iron, and I pointed out that with the Government balances too there would be difficulty, and that I thought the Central Bank might be trusted to wisely hold the reins in the matter of policy with regard to tho extent to which it deflated, and to the extent to which on special occasions it allowed some departure from the rule of strict deflation. Now I come to your question, which I think really means this, does it not? That from the standpoint you have mentioned we ought to hesitate in accepting an obligation to provide unlimited reverse remittance, because, in one way or another, it implies a corresponding obligation to deflate to the same extent.

11,430. Practically, I think, it does because in the normal course the sterling or gold reserve would be used by the Central Bank for meeting the demands for foreign exchange, and so far as those reserves were used deflation would necessarily follow. —Well, I do not see how you can get a gold standard without an undertaking either to provide unlimited gold for export, or to provide unlimited external credit. I do not see how you can give way on that point. Though I do not agree with the gold currency, I heartily agree with Indian opinion in

wanting a real gold standard, a stable standard. Looking back—you and I look back over many years of experiment and experience—I cannot think that this stated weekly amount procedure is at all consistent with a really stable standard. Therefore, I do hold to it that there should be an undertaking to provide unlimited external credit, or unlimited gold for export. Therefore, if that view is adopted and the difficulty you mention arises and has to be met, it must be met on the deflation side —that is, you may have to provide for permitting deflation not to take place to the full extent. I believe that will be the main difficulty with a gold standard. The point is one of much interest to me, and I think it must be to you. In the earlier discussions, and there have been constant discussions as to what would constitute an adequate gold standard reserve, I do not remember anyone ever asking what amount of deflation can India's monetary system stand. People have talked of £40,000,000 or £50,000,000, and so on or of letting the reserve grow indefinitely, but I think probably that our assets to-day have reached a figure which is beyond the amount of deflation which India could or would stand when it came to it. I can only say that the normal procedure should be to allow deflation to take place and that if it threatens, as some of us think it will threaten, to be excessive, you will have the best solution of that difficult question if you have functioning there already a Central Bank with the necessary wisdom and the necessary impartiality. That is the best I can say on that point. I think it is a fundamental difficulty ahead of us in the future, but I would not meet that difficulty by derogating from the completeness of the gold standard in form and constitution.

11,431. (*Sir Purshotamdas Thakurdas.*) The commercial character of the Imperial Bank which you consider to be a drawback for the purpose of a Central Bank is also, according to your statement, a source of great utility for the development of banking in India?—That is so.

11,432. What would be your view with regard to any suggestion that the commercial activities of the Imperial Bank should be transferred to some other institution?—My idea of the Central Bank would be that if it were started the present Imperial Bank would remain with its complete commercial character, and certainly I should think, with some freedom from the restrictions which now hamper it because of its close association with the Government; but the Central Bank would, in the first instance, have control of the Government balances, and so forth. Naturally, it would utilise those great institutions which already exist, and those balances, I take it, would be put at the disposal of trade through the Imperial Bank in the main. I do not know if I have made myself clear.

11,433. I merely wanted to get clear if I have understood you correctly that under no circumstances would you entertain the idea of the Imperial Bank, and the Government through the Imperial Bank, abandoning the very useful work that is being done in the development of the banking system in India? —No.

11,434. You would attach very great importance to that?—I attach very great importance to that.

11,435. You just said with regard to the Imperial Bank as it at present exists, that its activities along commercial lines are hampered, and I understand you would like some of the restrictions to be removed?—Perhaps I was a little incautious. I have not studied the question recently at all closely. I do not remember, for instance, at this moment, what is the exact position that the Imperial Bank now holds as to borrowing in England. That is one of the restrictions which, if it still exists, I think ought to be removed; but it probably has already been removed. All I mean to say is that their charter or their statute, if they submit such a request, should be re-examined and the fact of a Central Bank being established might be found to justify the relaxation of restrictions which have hitherto been considered necessary.

11,436. In that case, what value do you attach to complaints from other banking institutions in India, principally exchange banks, that the monopolistic character of the Imperial Bank will be increased still further if the Note issue is handed over to it?—I attach great value to any representations which the exchange banks might put forward in the event of important changes in the banking system. I recognise that there may be real difficulties, and I cannot pretend to tell this Commission how I think they would have to be met. I would like to put this point first. If you do not have a central bank, and you do invest the Imperial Bank with these functions which the Government of India proposes to transfer, by that method you create a situation in which the exchange banks might have greater cause of complaint than they would if you have a central bank. That I feel sure of. But in the other case, too, this is, with a new institution like a central bank at the top and the Imperial Bank with its great organisation working in close alliance with it, hardship might certainly be felt by the exchange banks which they might find it necessary to represent. One of my difficulties in saying more than I have said in my memorandum about the possibility of giving this extra work to the Imperial Bank was that I felt I really should not venture to offer an opinion, if I were still a person in some measure of authority, until I had a real talk with the Imperial Bank people and with the Exchange Bank people, and had heard a complete interchange of views.

11,437. I take it that you would agree that on principle you would not attach much importance to any representation by the exchange banks, but on specific points you would be disposed to examine their representations?—I think you have got my view in substance. I would not allow the exchange banks to stand in the way of far-reaching reforms and developments, and I do not think the exchange banks would want to do so. But they have done great work for India and deserve very great consideration, and they may be prejudiced by the changes which are being considered. Accordingly their situation would have to be considered very carefully.

11,438. On specific points?—Yes.

11,439. In paragraph 4 you suggest that there should be established machinery for joint consultation between the Governor of the Bank of England, the London representative of the Imperial Bank of India, and a representative or representatives of the Secretary of State in Council. May I ask why you say there should be a representative of the Secretary of State in Council?—I think your people will stand higher in London if they are in close touch with the Government.

11,440. In touch with the Government? You mean by Government, the Secretary of State and the Government of India?—I think it is true that they would stand higher with strong representation in London; but also—to come to points of principle—I am not prepared, as a matter of principle, to concede that the Secretary of State in Council can disinterest himself in everything concerning the monetary welfare of India. The exact manner in which he shall interest himself may vary a great deal, according to whether you have a central bank or not; but that he can be disinterested is a thing I cannot admit. He has a great responsibility to the holders of Indian stocks in this country—where they are Trustee stocks—and, as I say, he has a right in theory, I think, to ensure that he is fully represented. In practice a great deal depends—in determining the manner of control or intervention or oversight or contact even, putting it as low as that—a great deal depends upon the particular system you have.

11,441. The Committee here of the Imperial Bank is an advisory Committee, as you know?—Yes.

11,442. As you may, perhaps, be aware, there is already the Governor of the Bank of England on that Board?—Is he on the Board?

11,443. He has been on the Advisory Committee from the very beginning?—I did not know he had any formal function. I know he is in close touch.

11,444. On the Advisory Committee there is the Governor of the Bank of England and a representative of the City, at present Sir Malcolm Hogg—with the London Manager of the Imperial Bank as Chairman. You now suggest the addition of one more representative at least, and perhaps more, of the Secretary of State in Council, in order that he may be able to watch the interests of the lenders to India in England. Is that it, or if not, what is your meaning; because I was not able to follow it?—Partly from that point of view and partly in pursuance of his statutory obligations of superintendence, direction and control.* If there is anything really being done in London, if you have a Board on which it is necessary to have the Governor of the Bank of England and an important commercial man like Sir Malcolm Hogg, I think it is not to be recommended that the Secretary of State's only access to the Imperial Bank should be circuitously through the Government of India, and through them to the Directorate of the bank in India. If there is important business going on in London, and important considerations of policy are being discussed which are significant enough to require the strength you already have, I think that is a point at which touch should be established with the Secretary of State, who has a heavy responsibility in the matter.

11,445. But would not the important work of the Executive Committee of the Imperial Bank always be in India? All you would want here is an advisory Committee in order to keep the Central Board in India in as much touch as possible with London?—I know the Governor of the Bank of England, and I think anything he is on is going to be decidedly important. I think it is important on the merits that the Bank Direction in India (with the Government of India in some measure associated with it)—this combination of authorities which directly and executively controls India's monetary policy—should have its counterpart in strong representation here, in which a natural element would be representation of the Secretary of State in Council.

11,446. Do I understand you to suggest this as a counterpart to the Central Board of the Imperial Bank in India? There is only an Advisory Committee of the Imperial Bank in London. I did not gather until now, either from your written statement or from the discussion that we have had this morning, that you suggested this as a counterpart of the Central Board of the Imperial Bank.—I see your point.

11,447. It is rather a new aspect which I would like to see developed, if you do not mind.—I see your point. I would not use the word "counterpart," perhaps, but I would put it in this way: You have this machinery in London—you obviously must have it; you must have representation in London. The Secretary of State obviously, apart from any question of direct association with any bank, must exercise his financial responsibilities—his general responsibilities of superintendence and direction and control. It is most important, I think, if he is to exercise those wisely, that he should be in contact with any machinery which you have in London for representation of the Imperial Bank.

11,448. I put it to you that your suggestion may lead to undesirable complications. The Secretary of State's representative on the Advisory Committee here may express certain views, and the Central Board of the Bank, after taking cognisance of everything in India, may come to a different decision. Inasmuch as the Secretary of State has power to veto, and certainly to control, the Government of India, that may lead to great complications. It is very necessary that the authority finally controlling the Government of India here should not be represented in Indian matters independently of the Government of India. Well, I think you have put your point with force; it does not alter my view, but I see the force of your view.

11,449. I wonder whether there is any other point of view than the one which I just now mentioned which deserves consideration?—I see the force of what you say. I just want to add that there are fundamental difficulties in governing by a very great authority in India, especially under modern conditions, controlled by Parliament at home. There are great difficulties in such a situation, necessarily, and I think the difficulty referred to is merely an offshoot of the fundamental difficulty; but I think I have given you my answer.

11,450. I will pass on to another subject?—Yes.

11,451. In paragraph 7 you have this: "The use of gold coin abandoned in the United Kingdom." Is it really abandoned, or is it in suspense?—I think it is abandoned.

11,452. Is it?—Theoretically it is not; theoretically, I believe anybody now has the right to go and get sovereigns, but we work so little by rigid prescription in this country, and so successfully without it, that people are not taking gold sovereigns out to carry in their pockets, and I imagine they will not do so.

11,453. I will read to you one sentence from the Report on Currency and Bank of England Note Issues, 1925. Paragraph 46 says as follows: "We are decidedly of opinion that steps must be taken forthwith by legislative enactment to prevent the internal circulation of gold, until such time as the gold standard has been firmly re-established for the purposes of international transactions." Does that mean "abandoned"?—No, undoubtedly in terms it does not mean abandoned, but I think there is good reason to say it is at this moment *de facto* abandoned. There is also fairly good reason to think that that will go on indefinitely, but as regards my main point of view that you can have an effective gold standard without a gold circulation I do not think my position is impugned at all by that.

11,454. Have hopes not there been expressed in some of the chairmen's speeches at bank meetings in London expressing the hope that gold currency would be introduced in England as soon as possible? I remember having read some of them on my way here.—I generally read those speeches, but I do not actually remember that myself. If you have a positive recollection, of course that overweighs my negative recollection.

11,455. That makes me think that for the word "abandoned" in your Memorandum there should have been substituted the words "held in suspense"; that would be more accurate, perhaps. You only get abandonment if by statute you give it up?—I do not find, really, much reason to quarrel with what I have said here, but you have every right to put this point. When I say "abandoned," I must not be taken as meaning that under no conceivable circumstances could some Government or body of opinion come forward which will have the result of the sovereign being re-introduced, but it has been so definitely abandoned for the time being, and possibly for a long time being, that the position can properly be taken up that you can have a gold standard without a gold currency.

11,456. In paragraph 10 you say that there is a good case "for holding sterling securities only in the most realisable form" in the Reserves. I suppose by that you mean Treasury Bills?—Yes.

11,457. That takes me to what we heard in India, that when India holds sterling securities in any form here, it may be urged that by selling those securities,

* And partly with reference to the considerations referred to in paragraph 4 of my written statement. J.B.B.

or not renewing Treasury Bills when due, India may disturb the money market of London. Is not that a contingency which may arise at a time when India may want to liquidate some of her securities here, especially when there is something approaching a crisis in either country?—That type of consideration was rather in my mind when I state once or twice in this Memorandum that relianco upon credits rather than gold may possibly lead to a situation of subordination to the country on which the credits are held. I am not prepared to say a great deal or to profess a great knowledge about that point, but that is one of the considerations which have rather led me to place reliance on a considerable uso of gold rather than on the exclusive use of securities, which Sir Basil Blackett suggested in his first alternative scheme. But if there is any force in that objection that you have in your mind I think it is of minimum force in the case of Treasury Bills, where—you have—I forgot the exact amount—a figure of about £600 millions extant, or something of that very large type—which comes up automatically for renewal every three months or so. I think it would be quite impossible for any serious influence or pressure to be put upon the Indian authorities to forbear from realising their Treasury Bills to implement a formal undertaking, and probably a statutory undertaking, to provide unlimited reverses.

11,458. For real use at a time of crisis, nothing would be so handy as gold. Even the shortest term securities in London may not be very useful, inasmuch as the sale of them may disturb the London money market.—I do not quite subscribe to that. It is all very well to talk about gold in London being handy, but I do think you are going to find some difficulty in accumulating enormous stores of gold of your own in London. I think you are much more likely to be let alone if you hold the bulk of whatever gold you do hold in India. But if you hold gold in India, it is not handy at all, and I should think, whatever conclusions I or anybody else may have come to about this, you will find that business men in India have such confidence in Government's capacity to back up an undertaking to givo sterling credits that in practice they would probably prefer that method to getting gold for export.

11,459. In paragraph 11 you say: "A gold currency can only maintain itself in India if the persistent demand for gold as a commodity or as a store or value is kept constantly satiated." You think that India's demand for gold is not fully met from year to year?—Well, I am rather perplexed. I have heard it said, and the argument is a very much prized argument, that, if you only put gold into circulation, people will not want gold in future; and I have tried to attach a meaning to that: I have supposed it was possibly the pastrycook's argument, that if you give people enough buns they will probably take a dislike to buns. If that is the argument, it must be based on the assumption that the people are not now getting as much gold as they want. If so, it implies instantly the further consequence, that your estimate of 100 millions of gold as the amount of gold you require for establishing a gold currency may be nothing like the sum you will need. You may have first to stuff India with gold until she is tired of it. However, I have not been told the basis of this psychological anticipation.

11,460. I am afraid I am not able to follow the pastrycook argument which you have suggested, because on our side pastrycooks have something different to supply. I do not follow the meaning of it.—No.

11,461. All you are trying to say is that you do not recommend India taking more than is required for industrial purposes.—Quite.

11,462. I was wondering whether you agree that at present, since the war and since things have settled down, there has been any reason to infer that India does not get from year to year the gold she requires for industrial purposes.—No. The figures that you will find in statement I-B. of the annual Paper Curency Reports seems to me to show that surely India must be getting all the gold she wants. I do hope she does not want any more than that.

11,463. If India does get the gold she wants for her industrial requirements *e.g.*, ornaments, what evidence is there that the introduction of gold currency will mean that she will draw still more gold?—Have I said that they would draw still more gold?

11,464. I do not say you said that, but I ask what reason would there be for anybody to infer that the introduction of gold currency would mean that India would draw still more gold despite her having unchecked private import? Some people say that the introduction of gold currency would mean that India would draw large quantities of gold, and I wonder if you agree with that?—I did not put forward that argument myself. I think it has some force, but I do not think it has overwhelming force. If I could get some gold now without going to the Bank of England or some recondite place that I do not know the address of, I should probably carry a few sovereigns in my pocket though I am very contented with bank notes. If you have a real gold circulation such as Sir Basil Blackett wants to start, I think you will knock on the head—absolutely or very nearly absolutely—the hoarding of rupees altogether. I think therefore that you will want more gold for that purpose. Then there is the advance prosperity, an advance which is coming to be considered a normal feature of Indian economics. There will be a constantly increasing demand for currency from that cause, and even if the notes are not displaced the gold will take its share in supplying that demand, so that in addition to any estimate you now make of £103,000,000, or whatever it is that you require on the basis of conditions as they are to-day, you will always be providing a considerable measure each year or each period, of additions to the circulation of gold which, if you had not adopted a gold currency, you would not have required. In those senses, I think it is right to say that India will take more gold from having a gold currency.

11,465. When the currency is being enlarged in the normal course, why do you apprehend that the people will take gold instead of currency notes? When they know that gold is available why do you feel that they would not take gold notes with the same readiness with which they have lately taken to rupee notes?—I am not assuming anything extreme, but precisely as any advocate of a gold currency makes the assumption that people will use in currency large quantities of gold as well as large quantities of notes, so it is a natural and proper assumption to make that in annual or periodical accretions to that volume of currency gold as well as notes will take its natural share.

11,466. You think that the people will take more readily to the gold part of it than to the paper part of it?—I am not saying that, but to give illustrative figures, if you find established so many years hence a circulation of 60 crores of gold and 200 crores of notes, and you require to add every year eight or nine crores to the new currency, it is a reasonable assumption—in fact, it is an inevitable assumption—that some two or three crores, perhaps, will be in gold, even if the rest are in notes. I do not abate my fear lest gold may definitely supersede notes to some extent. I do not want to be regarded as abating that. But for the purposes of our immediate discussion, all I want to say is that gold would naturally be used, to some extent, in making new additions to the currency, quite apart from whether my other fear is right or not.

11,467. In other countries where there is gold currency, is paper currency not freely used side by side with gold?—Certainly

11,468. So that so far as that goes, there is nothing extraordinarily wrong in that?—I do not quite know what countries you are referring to.

11,469. South Africa?—Yes.

11,470. There is no country where gold currency exists without paper currency as well?—Wherever there is gold currency people are also taking notes—I suppose there is no doubt about that.

11,471. In paragraph 15 you quote some figures for England and India, and you come to the conclusion that those comparative figures "help to transfer the burden of proof" with regard to the rate of exchange. It has been said before the Commission by certain witnesses that in spite of figures similar to those you quote here, Great Britain made heroic efforts to get back to pre-war ratio. Is there any reason why India should not aim at doing the same thing with regard to the rupee?—In the terms in which you put it, you state what is, apparently, a striking anomaly, but I think if one looks at what the facts really mean there is no anomally at all. One may be misled by labels. What has happened is this. I take it that in no large country in the world does the unit of currency to-day represent the purchasing power that it did before the War. All have depreciated. When you say that in other countries the level representing exchange parity has gone down or merely been maintained whereas it is proposed in the case of India that the level should be raised, all you mean is that the economic facts of the situation permit of India being in the advantageous position of not having her standard of currency depreciated as much as other countries' standards have depreciated. That I regard as clearly an advantageous position, whereas when you put it in the form that the standard ratio is being enhanced in the case of India alone, and is lower, or merely maintained, in other cases, you put a point which suggests a certain artificiality and arbitrariness. When you look at the facts, you see there is no artificiality and arbitrariness, but merely that India is in the convenient and advantageous position that her standard unit has not depreciated as much as the standard unit has depreciated in other countries.

11,472. Why not let her enjoy that advantageous position?—That is what adherence to the present rate implies.

11,473. In paragraph 23 you refer to the Secretary of State's drawings. May I ask whether there would be any special inconvenience caused to the Secretary of State if his requirements were remitted here from India, or if he drew from here on India as might be finally settled according to the scope of his requirements as they came up? The last Report of the Controller of the Currency for 1924-25 says that the minimum balance the Secretary of State had in hand was about $10\frac{1}{4}$ millions, and the maximum $22\frac{3}{4}$ millions, the average being $15\frac{3}{4}$ millions, against a total requirement for the year of 30 millions. That is how the figures stand. Certain remittances are being made from India by the Secretary of State drawing from India in accordance with his requirements?—I wonder if I might ask, before I attempt to answer the question, what is to happen as regards undrawn amounts, if I may so call them.

11,474. Do you mean the balances?—The Secretary of State draws first upon the available funds that the Government has to spare in India. If any further drawing is required, it is operated through the paper currency reserve. The question I wanted to ask was whether you contemplated that the Secretary of State's drawings should fall short of the surplus which the Government have in their Treasuries in India.

11,475. I contemplate nothing. I wanted only to ask you, as you were Chairman of the Finance Committee of the India Office, what inconvenience would be caused to the Secretary of State for the purposes of his requirements here in these circumstances. If it was said that he should get, in regular instalments, as and when payments fell due, the amount that India had to remit here, namely, 30 million pounds, and keep only a small balance here of 3 or 4 millions in case of need, what would be the inconvenience caused to the Secretary of State?—It is a much more complicated question, I think, than perhaps you realise.

11,476. I do not want to press you if it is a question you are not prepared to answer, but I thought, in view of your long experience of the India Office, perhaps you could answer it?—I have to consider, if you reduce the amount of drawings, what is going to happen to the funds which you would have drawn under the existing procedure and do not draw under the proposed procedure, and so forth.

11,477. (*Sir Purshotamdas Thakurdas.*) If I may say so, I do not think those considerations come in at all. The question only refers to the requirements of the Secretary of State and the inconvenience, if any, it would occasion him if he got just what he required and no more. The other considerations stand apart, if I may say so. The question is: What is the inconvenience which would be caused to the Secretary of State if he were to draw on India, or there were to be remitted to him from India amounts in such sums as may be necessary for his requirements in London?

11,478. (*Chairman.*) Perhaps you will let us have a written reply, when you have looked into the matter?—Certainly, if the Secretary will post a copy of that question to me. It is not that I want to devote a great deal of time to it, but it is a question which would require more consideration than can be given in the one or two minutes which remain before the Commission rises.

11,479. (*Chairman.*) It is a question which opens up many aspects, and perhaps a written note of it would be most satisfactory.*

11,480. (*Sir Norcot Warren.*) I see in paragraph 21, sub-section B, that you say you would hand over the note issue and exchange machinery with their reserves to the Imperial Bank for administration?—Yes.

11,481. Do you contemplate, in that event, an initial issue of Imperial Bank notes for the present currency notes of the Government of India?—Well, I see that it seems to be accepted by every authority that you cannot have a bank issuing a Government note, and, of course, it is a natural thing to assume. I have wondered if it is a necessary thing to assume. There is no doubt at all, whatever the banking arrangements might be, whether it is the Imperial Bank or whether it is the Central Bank, that the Government credit and so forth, will be intimately bound up in the maintenance of those institutions. If you are introducing great changes, particularly, of course, this gold currency business, with its great tendency to disquiet holders of currency, I would personally rather waive the point of purism and let the Bank issue the notes in the old form than introduce that additional complication of changing the form of your notes, just at the time when you were commencing the policy of altering the status of your rupee. I would rather not do the two together, and I doubt whether it is necessary.

11,482 (*Chairman.*) We are greatly obliged to you for your very full assistance this morning, and I trust we have not overtaxed you?—I am not overtaxed, but I hope the Commission is not overfatigued.

* See Appendix 77.

(*The witness withdrew.*)

# THIRTY-THIRD DAY.

## Wednesday, 10th March, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER.
Mr. A. AYANGAR. } (*Secretaries.*)

Mr. CECIL H. KISCH, C.B., re-called and further examined.

11,483. (*Sir Reginald Mant.*) There is one point in the evidence that you gave us on Friday which I should like you to make clear. In your memorandum and in your oral evidence you recommended, if I understood you rightly, that a Central Bank, if formed, should be placed under a Statutory obligation to sell gold or foreign exchange on demand at any time to an unlimited extent; but later on, when we were discussing the possibility of a divorce between gold and sterling, you suggested that the obligation to be placed on the Bank should be to issue a notification of a standing offer to sell gold or foreign exchange, and that the notification might be withdrawn or modified at any time. This appears at first sight to be a material modification of your previous recommendation. I am not sure whether that is what you intended, and I shall be glad if you will elucidate the point?—In the course of the discussion last week as to what might happen in hypothetical circumstances if sterling became divorced from par, I think the cardinal position which I have tried to advocate on previous occasions may perhaps have become obscured. The view I placed before the Commission is that it is essential that the rupee should be anchored to gold, and the form in which that must be done is by Statute. The Statute would define the Banks' buying price for fine gold in terms of grains per rupee. It would also define the Banks' selling price for fine gold or equivalent gold exchange in terms of the rupee. This equivalent gold exchange would be a sum in foreign currency calculated by the Bank with the approval of the Governor-General in Council to represent the standard price of the appropriate amount of fine gold in the country outside India concerned, less a percentage representing the normal charges of a remittance of specie from India to the country concerned. The Bank would presumably notify in the Gazette of India, with the approval of the Governor-General in Council, the country or countries upon which gold exchange would be issued, and the rates of gold exchange per rupee.

11,484. Could you give us any indication of the precise form which the Statutory obligation should take? I have thought over that matter, and I am glad to have the opportunity of putting before the Commission the sort of lines of a draft Statute,* although, of course, the Commission must understand that I am not a legal draughtsman, and no doubt the language would be susceptible of improvement when it got into the hands of a drafting expert.

11,485. I only meant your rough idea of the matter? —I was going to suggest something of this sort: "The Bank shall receive from any person making a demand at the head office in Calcutta or Bombay, or at any other office of the Bank which may be notified by the Bank for the purpose in the Gazette of India, gold bullion or gold coin which is not legal tender in India in exchange for Government rupees or Bank Notes at the rate of X grains troy of fine gold for one rupee, subject to conditions to be notified by the Bank in the Gazette of India with the previous approval of the Governor-General in Council." The converse clause, as regards the selling of gold or equivalent gold exchange would be something of this sort: "The Bank shall sell to any person in India, who makes a demand in that behalf at the head office in Calcutta or Bombay or at any office of the Bank which may be notified by the Bank for the purpose in the Gazette of India and pays the purchase price in any legal tender, gold at the rate of X grains troy of fine gold for one rupee, or at the option of the Bank an equivalent amount of gold exchange payable in any country outside India approved by the Governor-General in Council, and maintaining a free gold market subject to the following conditions: (*a*) No single demand for gold or gold exchange shall represent a less value in gold than approximately 400 ounces of gold; (*b*) the equivalent amount of gold exchange referred to shall be a sum in foreign currency calculated by the Bank subject to the approval of the Governor-General in Council to represent the standard price of X grains of fine gold in the country outside India concerned, less a percentage representing the normal charges of a remittance of specie from India to the country concerned. For this purpose the Bank shall notify in the Gazette of India, with the previous approval of the Governor-General in Council, the country or countries upon which gold exchange shall be issued and the rates of gold exchange per rupee."

11,486. Will you let us have a copy of that draft? —Certainly. I will see that it is supplied to the Secretaries.

11,487. It will then be circulated to the members. Is there any other point in your previous evidence which you would like to amplify before we proceed further?—The only other point to which I want to refer is the question of the figures relating to sales of silver. In regard to those figures you suggested that 50 crores was treated as a minimum holding. I omitted to mention then (the point had escaped me at the time) that the reason why that was taken was that if we were assuming a 40 per cent. metallic ratio with a total Note circulation of approximately 200 crores, the metal holding would have to be just about 80 crores. There were 30 crores of gold held. Therefore on the assumption of the 40 per cent. metallic holding, 50 crores of silver would have to be held. I just want to put that in to make the point clear why that figure was taken. I have since made some further investigation into the matter, and on the

* See Appendix 75 (A).

assumption that the silver holding was allowed to go to a smaller level, any corresponding deficiency in metal would have to be made good by an increase of the gold holding. This would mean an exchange of sterling securities now yielding interest for gold, thus introducing a new factor into the cost problem. I think it will be found on investigation that, assuming any reasonable difference between the selling and the buying price of silver such as 4d. on an average, or 6d. possibly, the capital loss on repurchase after a sale is likely to be so large as more than to cover any likely interest receipts accruing within the period before which replacement of silver sold would be necessary, assuming absorption continues, roughly speaking, on the lines to which we have been accustomed. I will hand to the Secretaries some figures bearing on the point, in case it may be of interest.

11,488. Yes, we should like to have the figures. I want to understand your position clearly. You recommend that there should be a 40 per cent. metallic cover to the Note issue. Assuming a circulation of 200 crores, that means 80 crores of gold or silver, and you suggest that 50 crores of that must be in silver? Is that right?—No. I do not suggest that. I am suggesting merely that it will probably be found more profitable to allow silver to be absorbed in the ordinary way rather than to embark on a sale. I suggest you may find on investigation that the surplus holding will be absorbed within a fairly reasonable period, the period not being long enough to enable you to recover, by gain of interest, what you might lose on the difference between selling and buying prices.

11,489. Do you still suggest that recoinage should begin as soon as the silver holding falls below 50 crores?—No, I would not suggest that. I was suggesting this. If you are going to hold that the Note is only to be convertible internally into silver, and that you are not going to embark on a scheme of a gold circulation, it would probably be not an excessive proportion to hold, say, 20 per cent. of your reserve in the form of coin which can be issued in the event of there being a demand on the part of Note holders for internal conversion owing to any temporary reason such as a lack of confidence.

11,490. That is, for the present circulation of 200 crores you would look on 40 crores as a normal minimum of silver?—Subject to the conditions that I laid down about there not being an intention of fostering or promoting actively gold conversion or gold circulation.

11,491. (*Sir Purshotamdas Thakurdas.*)—In paragraph 2, sub-paragraph 2 of your memorandum No. 4, you refer to the recent large increase in the number of branches of the Imperial Bank. Do you look upon that as a useful part of the Imperial Bank's activities?—I think it is a most important aspect of their work, because I consider that nothing which helps to spread banking facilities throughout India ought to be neglected.

11,492. I suppose you know that the total number of branches which have been opened by the Imperial Bank, together with those of the old Presidency Banks, is now about 160 odd?—I knew the number was somewhere in that neighbourhood.

11,493. And that there is no other banking organisation in India which has branches of anything like that number of branches?—Quite so.

11,494. These branches play a very important part, do they not, in the development of the country, and in assisting Indian commerce generally?—Absolutely. They play an invaluable part in that respect.

11,495. Therefore any interference with this part of the activities of the Imperial Bank would, I take it, be a very undesirable thing?—Arrangements must be made for continuing that pioneer work, and the arrangements must be such as not to set it back in any way.

11,496. It has been said that it would not be possible in the present circumstances, and judging by the experience gained up till now, to rely upon any private banking organisation to do the sort of developmental work which the Imperial Bank has done and is now doing. Do you agree with that?—From what I know I should think that the prestige attaching to the Imperial Bank, and its reputation throughout India, are such as to make it an almost indispensable factor in carrying on that sort of work.

11,497. The prestige attaching to the Imperial Bank only affects its receipts of deposits. I am thinking more of the help which the Imperial Bank gives in the development of commerce and industry, and in helping to finance crops and to market them. That part of the activities of the Imperial Bank cannot be replaced by any other banking organisation which is in existence? Do you agree with that?—The continuity of this work must be assured whatever changes in banking organisation are made. The only question that would arise there is whether, in the event of a true Central Bank being created, distinct from the Imperial Bank, appropriate provisions can be made for carrying on that very indispensable part of the Bank's business to which you are referring.

11,498. Without any abatement in the activities or substantial change in the policy which have been followed by the Imperial Bank up to the present time?—On the same lines which have been adopted hitherto.

11,499. Do you think it is possible that any other private banking organisation would be willing to do the same work which the Imperial Bank through its branches is doing in India at present?—The problem which the creation of a Central Bank as distinct from the Imperial Bank raises is apparently capable of approach from two sides. The side which I am disposed to favour is that the Imperial Bank should continue with the work to which you have just been referring, and that the new Central Bank should deal with the central banking business which some of us would like to see entrusted to a new organisation. The other method of approaching the question would be to retain the name "Imperial Bank" for the new Central Bank and to constitute a new Bank to carry on the general banking business to which you have referred. I myself am disposed to favour the first line of approach.

11,500. In the questions I have been putting to you up till now on this subject I have in mind neither the name of the commercial organisation which should continue the work which the Imperial Bank is doing at present, nor the Reserve Bank. All I am concerned with at present is to know whether you think any banking organisation can do the work which the Imperial Bank is doing without the assistance which it at present enjoys from the Government?—There is no bank in existence at the present day, other than the Imperial Bank, which can do that work.

11,501. Do you see the possibility of any other organisation being able to undertake it without the privileges which the Imperial Bank enjoys at present from the Government?—I should not regard it as beyond the possibility of achievement to create a Central Bank—a bankers' bank and a Reserve Bank in the sense of which we have been speaking—which would permit of the continuation of the Imperial Bank's present business under a changed organisation.

11,502. Do you think this is feasible?—I think it ought to be feasible.

11,503. In paragraph 3 you say, "It might help the interests of Government if contact were established between the Secretary of State in Council and the Advisory Committee." When you say "Government" do you mean the Secretary of State or the Government of India?—The Government of India

are in contact at the present moment with the Imperial Bank, and it is basic that they should be in contact with any new Central Bank which might be created. I am suggesting that, if the functions of the bank are extended, there may be advantages in establishing contact on this side between the supreme executive of the government of India here (which, under the present constitution, is the Secretary of State) and the offices of the bank here, because there may be important questions affecting supreme Indian interests on which the point of view of the executive Government in India could be voiced by the competent spokesman on this side.

11,504. The Committee here of the Imperial Bank is merely an Advisory Committee. It has no executive powers at all, has it?—I believe that is so.

11,505. And contact between the Government of India and the Imperial Bank in India has been satisfactory up till now, as far as one knows, has it not?—As far as I know it has been altogether satisfactory.

11,506. How is your suggested representation of the Secretary of State in Council on the Advisory Committee in London going further to help the Government of India in their contact with the headquarters of the Imperial Bank which you admit has till now been satisfactory?—There may be questions arising affecting the flow of gold to India—(I am not speaking now of a flow of gold for social purposes, but in connection with bank remittances)—in regard to which important points may arise to which India cannot be indifferent, and on which the authority in India may want to be advised by the competent people here. In a case of that kind I suggest the Secretary of State might be in a position to help the people in India to understand the facts of the case.

11,507. The person most competent to advise in that connection in London is the Governor of the Bank of England, is he not?—That is so.

11,508. And you are aware that the Governor of the Bank of England is a member of the Advisory Committee of the Imperial Bank in London?—Yes.

11,509. Do you think the Secretary of State's representative can do better than the Governor of the Bank of England who is present at all the Committee meetings?—I am not suggesting he would do better. I am suggesting he might form a helpful vehicle for making the point of view of the Indian authorities clear to the Governor of the Bank and the views of the Governor of the Bank of England fully understood by the Government of India in the case of any apparent divergence of view arising between the Indian authorities and the authorities here in the City.

11,510. Would not it rather lead to complication in the case of a divergence of views between the Government of India and their supreme head, the Secretary of State?—I should hope you would find that the influence of the Secretary of State would be exercised in the way of smoothing down the differences, because many of these differences arise from misunderstandings. A true understanding is really what is generally required to smooth away differences, and my suggestion is that it might be found in practice to be very useful in making the position really understood in India.

11,511. By the Government of India?—Yes, by the Government of India. I think, as I say, it would be helpful if they could realise that their own point of view had been put by their own competent spokesman here to the City authorities, and the matter discussed with them, and the result conveyed to them in that way.

11,512. Who is the competent spokesman of the Government of India in London? Is it the Secretary of State or the High Commissioner?—For all matters affecting the Central Government of India the Secretary of State is the responsible executive—in regard to matters affecting central administration under the present constitution.

11,513. Therefore, as far as the question of keeping the Government of India in touch with such matters is concerned, the Secretary of State is not the proper representative for the Government of India, is he?—Perhaps you did not hear my previous answer. I said that in regard to central matters the Secretary of State is, under the present constitution, the authority in this country.

11,514. What do you mean by "central matters"?—When I say "central matters" I am referring to matters within the competence of the Government of India and the Central Legislature, as distinct from what are known as the transferred subjects, in regard to which the statutory position is entirely different.

11,515. There does not arise any question of "transferred" subjects in connection with the Government of India, does there?—No. That is why I said that in regard to these matters the competent authority on this side, under the existing constitution, is the Secretary of State.

11,516. Have there been any occasions up till now when there have been differences of opinion between the Government of India and the Secretary of State?—There necessarily must be matters on which different views are taken by the different authorities at certain times.

11,517. In view of that is it not preferable that the representation of the Government of India, as far as collecting information or keeping them in touch is concerned, should be confined to such persons as the Government of India may be able to control and select to that end?—I think in a matter of that kind one has to consider what the statutory position is. As I see the position, Parliament has at present ordained that in this class of matter the Secretary of State shall be the authority.

11,518. He is, and nobody proposes that that position should be disturbed. The Secretary of State, for the purpose of exercising his statutory rights, can always be in touch; he is in London, and he can easily get in contact with any expert here he likes. Why complicate the position by putting a representative of the Secretary of State on a Committee which is merely an Advisory Committee, especially when you have got the best possible person on the Advisory Committee to give advice on matters in relation to gold and precious metals, namely, the Governor of the Bank of England?—The point of the suggestion is that as the Government of India themselves are not in London, and cannot be in London (which, in regard to this and possibly other matters, is the vital spot) the task of voicing their views should be vested in the authority legally responsible to Parliament for the actions of the Government of India in regard to central subjects, that is, the Secretary of State.

11,519. Have you heard from the Government of India that they desire any representative on the Advisory Board here?—No, the question has not been discussed. It only comes into prominence in connection with the contemplated extension of the functions of the bank.

11,520. If the Government of India did not desire representation on the Advisory Board, do you think the Secretary of State would press for it?—I doubt if he would press for it if they were averse to it.

11,521. You say "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind." Will you tell us what those objections are?—As I see the position, the Government of India are large depositors with the Imperial Bank, and I see no reason why they should be deprived of the right, recognised as belonging to a depositor with the bank, of being able to utilise their deposits—the Government of India's deposits—in the way that is thought most advantageous to Indian interests from time to time. It is not possible to foresee the courses of exchange, and as a business man you know that if you held large deposits at a bank in India which you anticipated you would want to convert into foreign

currency in the course of months, you would yourself be keeping a close eye on the market from day to day, and would direct your policy in regard to the conversion of your rupee balances into foreign currency according as things developed, and according to the advice you got from your competent advisers, and according to your own knowledge of your obligations on the other side. You would never, I suggest, make the thing over absolutely to an agent and dis-interest yourself in the day to day steps which affect the rate at which you remit, and the volume of the remittance from time to time.

11,522. Those are the objections you had in mind in paragraph 4, are they? Before 1914, when the exchange fluctuations were comparatively narrow, do you think there was anything in the suggestion of catching the market to which you have just referred? —I think a proper discharge of the duty of the Government to the Indian taxpayer does require it to watch the fluctuations of the market just in the same sort of way that a big business house having remittances to make from India to this country would be constantly in touch with market movements. I think that is a desirable and necessary thing to do even if the possible range of fluctuations is perhaps only something about 1 per cent. or perhaps less.

11,523. Then it is only from the point of view of being able to remit at the most advantageous rate. There is no other point of view from which you think there would be an objection to tying up the Secretary of State by an advance monthly programme? You suggest that we should leave the Government of India free to remit funds from India to London at such moments as they think to be to their best advantage? —I think that is one of the most important aspects of the case. We know, roughly speaking, what our commitments may be, but they may vary in surprising ways from time to time, and one wants to keep a free hand in dealing with what are the balances of Government. They must not get immobilised.

11,524. That is the most important point of view from which you think there would be objection, namely, that it would not enable the Government to take advantage of a suitable moment at which to remit the money?—I think that is one very important aspect of the case.

11,525. Is there any other objection which you think is equally important?—The principal reason, of course, is that the obligation on Government is to meet its commitments. That is the thing which it always has in front of it, and which it tries to work in with the market prospects as advised by competent people.

11,526. That is a question of exchange again?—That is the essential part.

11,527. Lower down you say "The action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead". The total amount which you require out here from India is at present round about £30,000,000, is it not?—The actual amount that may be required from year to year depends very much on whether or not we have to borrow in London for the purposes of the capital obligations of the Government. If conditions are favourable, it is to the interest of India not to increase its external obligations, and therefore if the Government of India find themselves in a position to borrow in India and to remit the money to this country, it suits them to discharge not only the revenue obligations of the Government in London, but also the capital obligations. Though we can say that the revenue obligations are somewhere in the neighbourhood of £30,000,000, the amount of the capital obligations which it may at any time be possible to meet without sterling borrowing, depends very much on the course of exchange and market conditions in India.

11,528. Taking the last 25 years, it would be correct to say that all this is very approximately fixed up between the Government of India and the Secretary of State before the presentation of the Budget in India, and is therefore well known to both sides before the financial year begins?—The figures in the Budget given for remittance I think are always understood at the time to be rather of a rough nature as showing the way in which things may work out as distinct from the way in which things will work out. The Government of India habitually reserve in practice the right to vary the precise methods of remittance as things may develop. It is obvious that in a country like India, subject to vicissitudes, depending on the monsoon and so on, you cannot tie yourself down beforehand, and you do not profess to do so.

11,529. Can you refer the Commission to one or two instances where there has been substantial variation from the forecast made by the Finance Member at the time of the presentation of the Budget?—I think it has been the habit in recent years to leave vague in the Budget the precise method in which remittances should be made. I certainly remember, in connection with the framing of the Budget, the putting in of a figure for remittances required, it being perfectly understood that the precise method of making those remittances, whether by draft on the sterling assets held by the paper currency reserve on this side or remittances from India in the open market, was left entirely open for settlement as the year proceeded. I should suggest that in the last few years it has been quite impossible at the beginning of the year to say "This is how we are going to carry out these remittances" and then compare the result with the position at the end of the year and say "That has been exactly as contemplated," because when the Budget is presented the method of making remittances is in effect left to be worked out as the year progresses.

11,530. Let us take the years commencing with the Reforms: can you tell me of any particular year since 1921 which necessitated a substantial change from the programme laid down by the Finance Member when he presented his Budget?—I should like to turn up the actual Budgets before I appear before you next, and then I will let you have an answer on the point.

11,531. Can you tell us roughly the commitments of the Secretary of State here? I understand that 16 millions out of the 30 millions are for interest charges on borrowings of the Government of India here?—The total revenue commitments in the year are somewhere in the neighbourhood of £28,000,000 at the present time, of which a large proportion represents the interest on debt.

11,532. The dates on which that substantial part of the total obligation is due are, of course, known accurately?—Yes.

11,533. There is another item of payments to the War Office. The dates of those will be generally known?—Yes.

11,534. Will you tell me what other payment there is which is not known, or cannot be known, by the Secretary of State with any fair accuracy?—The amount of the payments in respect of capital stores required by the railway companies, which is a very important item, has varied very largely in recent years from the estimates owing to questions of contracts being not finished in the time assumed, and so forth. There have been very substantial variations in some items of that sort. An important variable is the amount of the capital charges which may or may not be capable of being met without resort to sterling borrowing. That is the reason which makes it impossible to say at the beginning of the year how much you will have to meet by remittances from India, and how much you will have to provide by raising it on this side.

11,535. Those commitments are of a nature which would be known to the Government of India in fairly

good time?—An estimate of the commitments is framed in connection with the Budget, but we have found, for reasons not within the control of the Government of India, or of ourselves, that the actuals differ very much from the estimates.

11,536. Can you give us instances of that variation?—Since we embarked on the 150 crore railway programme, the estimates of expenditure have proved, as it turns out, to be in excess of what it was possible to spend within the years budgeted by a very substantial amount.

11,537. So that the Secretary of State, if anything, was kept in larger balances?—The result of that was that, conditions for remittance having been on the whole favourable since remittances from India in the open market were resumed, the sterling balances have been on the comfortable side.

11,538. That instance does not show any inconvenience to which the Secretary of State was put, does it?—But of course you understand that he has been in control, with the Government of India, of remittances all through this period; and the satisfactory situation, which has enabled India to avoid sterling borrowing since early in 1923, may be ascribed, I think, in part at any rate, to the way in which the authorities have take advantage of favourable market conditions for remitting funds from India.

11,539. But that statutory control of the Secretary of State is not likely to be disturbed by any change that may be made in the regulation of remittances?—The control of the Secretary of State over the Government of India would still remain.

11,540. You refer in the footnote to sub-paragraph (6) of paragraph 2 to the interest earned on the Secretary of State's balances in London, and I think you suggested in a supplementary statement which you made at a former sitting that it worked out at about 4½ per cent.?—This refers to the interest earned on the Treasury balances. The other figure I gave you related to the interest earned on the investments of the gold standard reserve. This figure would no doubt be substantially less, because this figure represents interest at the current rate for short money in London—roughly speaking, the rate on the British Treasury Bills.

11,541. Will you tell me what has been the maximum amount earning this interest, and what has been the average amount earning this interest in the years to which you refer in the footnote?—I will get that information for you.

11,542. And will you supply similar figures for the two pre-war years of 1912-13 and 1913-14?—Yes.

11,543. (*Sir Norcot Warren.*) Referring to the Government balances at the Imperial Bank you say that on numerous occasions in the last twelve months the bank's total cash has been substantially lower than the amount of the Government deposits, but looking at your figures in the Appendix I see that there were only four such occasions in the year 1925, and if you take the whole time since the bank has been opened, you will find there have been only six such occasions. Therefore do you think the word "numerous" is quite the right one to use?—Perhaps "a certain number of occasions" would have been a better phrase. Taking the year 1925, I consider that four occasions out of about a dozen is an appreciable proportion. Taken as a whole the ratios are worthy of remark.

11,544. Is that quite the right way to take it. If you take the average for the six months you will find that the Government balances have been 18 crores as against 26 crores of the bank's money?—Is this based on the figures here?

11,545. Yes, and checked?—The position this year, towards the end of this year, has been rather exceptional, because the Government of India had no loan involving new money last July. It is not quite a normal position. I take it that the rather surprising change between the early months of the year and the later months would not have been so marked if it had not been for that somewhat unusual phenomena in Indian finance, namely, that there was no fresh money raised on the Government of India's loan this year.

11,546. But you would not call six times in five years "numerous"?—No. I wrote this note some months ago, and I had in mind the early experience of the current year. I realise it is not an habitual phenomenon, by any means.

11,547. In discussing the question of a Reserve Bank, a former witness said that the Government cannot divest themselves of ultimate responsibility for India's monetary welfare or for the great sums of money made over to the control of a commercial institution. Do you agree with that?—Yes.

11,548. You say that, if the Imperial Bank is to continue its good work as regards the commercial side, there should be a Reserve Bank for taking over the Note issue and the currency?—I think if a Reserve Bank, in the genuine sense, be created it will form a most valuable asset to India in developing banking business hereafter up and down the country on sound lines.

11,549. But you want that Reserve Bank to be under statutory control?—A Reserve Bank must be under statutory control.

11,550. Under much greater control than the Imperial Bank is under at present?—A Reserve Bank, in the sense I contemplate it, ought to be under a more stringent statutory control than the Imperial Bank is under at present.

11,551. Then why split up the Imperial Bank at all? Why should not it have a Note Issue Department, quite separate and under statutory control, and quite apart from the commercial side?—It seems to me that the placing of an Issue Department under statutory control, and leaving the management and control of that Issue Department in the hands of the same authority as is responsible for the Commercial Department, can never assure the same independence which should be assured if the central banking functions are carefully defined and placed under an entirely independent management. It is recognised that the control of the Issue Department plays a vital part in the maintenance of exchange stability and sound money conditions throughout the country. The proper discharge of those functions may require on occasions independent judgment of a high order, and I do not think it is fair to place that particular responsibility upon authorities who are also intimately concerned with other interests which may appear, on the surface (though I do not believe they are at heart), not to be absolutely identical at all times. I think for that reason a formal division of the Issue Department from the Banking Department would not meet the purposes of the case. I think if the opportunity, which the sitting of this Commission affords, of creating a genuine Central Bank is lost it may be extremely difficult hereafter to get back to that sound conception. We must have an absolute assurance that the Issue Department is never made the handmaid of the Banking Department, and as the control of the Note issue involves, rightly, discretionary power, and the exercise of judgment and wisdom, one wants that those powers should be exercised under the most favourable circumstances for their proper discharge.

11,552. I am not proposing that the Issue Department should be under the commercial side of the bank; I want it quite distinct?—Yes, but there must be some authority charged with the management of the Note issue, and I take it that the authority charged with the management of the Note issue would be the direction of the bank.

11,553. Under the control of Government?—Under the general control of Government, but we are anxious, if a genuine Central Bank is created to divest Government so far as we can of detailed executive control in these matters. If a genuine Central Bank is created one would hope that the function of the Government would be in the main

watching and approving, and nothing of the nature of a detailed day-to-day interference. If the Government had to deal with detailed questions from day to day, I think a considerable, if not the main, part of the advantages of the project would be sacrificed.

11,554. If you create this Reserve Bank I suppose it would have none of the Government balances which the Imperial Bank hold at present?—They would have to be placed in the Reserve Bank, which would make appropriate use of them.

11,555. If that is the case, how could the Imperial Bank go on doing the good it is doing now without the help of the Government balances?—The Reserve Bank would, of course, have to place a certain portion of the balances handed over to it, in one way or another, at the disposal of the market. It is not a part of the proposal that the Reserve Bank should lock up funds.

11,556. I do not mean that. I mean the branches. Who is going to carry on the branch work?—The Commercial Bank would have to carry on the work.

11,557. Without the balances?—Without receiving the balances direct, I take it, from the Government; but if it is the case that in consideration of holding the Government balance the opening of the new branches has been undertaken by the Imperial Bank at the request of Government, and on an unremunerative basis, the Bank might have a claim to make for compensation in respect of obligations undertaken under conditions which have not been maintained. That would be a matter for investigation, and, if necessary, adjustment. Is that your point?

11,558. No. My point is, who is to continue the good work of the Imperial Bank as regards spreading the banking habit in India if you take the balances of the Government of India from that Bank?—I take it there would be no diminution of the funds in the market, and in practice the Central Bank would, in some way or other, make available a portion of the balances deposited with it by the Government to the Commercial Bank. These funds would be available in the market. They would be placed out in the market by buying short term securities and by rediscounting eligible paper. They would not be held inert. Thus the funds would be placed at the disposal of the market, and in that way the deposits of the Imperial Bank would be increased, I presume, in consequence. That is how I should assume the business would be worked.

11,559. Who will do the Treasury work at these branches?—The Central Bank will not, of course, have branches up and down the country. Subsidiary work of that sort would be done by the Bank which has these branches, on terms which would be arranged.

11,560. On terms with the Reserve Bank?—Which would be arranged—quite so. That work must be carried on.

11,561. I do not think it would suit India. I think it is a very clumsy arrangement. You know how the Treasury balances are worked in India?—I do. I do not know whether the arrangement of remitting between the various offices of the Bank would necessarily be disturbed by an arrangement of the kind. I think that would have to continue.

11,562. (*Prof. Coyajee.*) I just want to ask two or three questions on paragraph 2(5) of your memorandum. You are of the opinion that the Gold Standard Reserve and the Paper Currency Reserve should be kept separate and not be amalgamated?—I am inclined to that view. We are now assuming that a Central Bank takes over the administration of both those reserves.

11,563. Do the great European Banks distinguish between the reserves for maintaining exchange and those for redeeming their Note issue?—Thy do not, but those Banks are not faced with the peculiar situation of the unlimited legal tender silver rupee, which has created a special problem and which has led to the creation of a Gold Reserve fund. The point which I had in mind, and which I have thought over since the last discussion, was really this—that the Note will be the bankers' Note, and the rupee will be the Government's rupee, and it would meet the case, so far as I see it, if you have the account of the Banking department, and the account of the Note issue department, and the account of the gold standard reserve—the assets being 50 crores, or whatever the figure may be; and on the other side the corresponding liability "Government Deposits," 50 crores to balance it. My only suggestion was that the silver rupee, which has to discharge the function of providing the internal convertibility of the Note, is not in the same position as the Note, and therefore it is not suitable to add the two together in one combined statement. My suggestion was there should be the two statements produced in the form of a balance sheet, with which we are familiar in the case of Banks.

11,564. You observed in your evidence on the last occasion that as between the paper currency reserve and the gold standard reserve, the resources of the former should be utilised first to maintain exchange?—That would be the normal procedure.

11,565. Did not the Chamberlain Commission recommend that the paper currency reserve should no longer be regarded as the first line of defence?—I should have to refresh my memory as to what they actually said, but in practice the view taken has been to treat it as available for this purpose.

11,566. (*Mr. Preston.*) I would like to ask you some questions on the Memorandum* which has been cir-

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* SUGGESTIONS FOR SCHEME OF A GOLD STANDARD LEADING TO A GOLD CURRENCY.

(Circulated by Mr. PRESTON.)

1. Stop all further coinage of rupees.
2. Future issue of notes to be gold mohur notes convertible into gold for export purposes only. Such notes fully convertible into rupees.
   (*a*) For purposes of this section it shall be understood that "Export" means gold shipped from Calcutta and Bombay to London.
   (*b*) No shipment shall be for a less amount than 100,000 gold mohurs by any person, or firm, or bank whatever.
3. The weight of the gold mohur shall be determined when the exchange parity has been decided upon, but the fineness shall be that of the English sovereign.
4. Council bills shall only be sold to the actual extent of Government requirements—no more.
5. All further additional currency as may be required shall only be given against actual tender in India of gold coin or bullion, and such coin and bullion shall be accumulated in India until the fund reaches £100 millions.
6. Legal tender of rupees not to be disturbed but can be reconsidered, say—10 years hence.
7. As soon as the new parity has been finally decided upon the rupee value of the gold and sterling securities in the paper currency reserve to be written up to the said new parity, and a sufficient amount of securities from the gold standard reserve to be transferred to the paper currency reserve to wipe out the "*ad hoc*" securities.
8. Any balance remaining in the gold standard reserve to be converted gradually into gold and shipped to India, as a beginning of the said £100 million fund.
9. Council bills to be sold by public tender, either in India, say—monthly, and alternately in Bombay and Calcutta, or portion in London.
10. Full liability to legally establish a complete gold currency—not before the fund of £100 million has been accumulated.
11. All notes shall remain Government of India notes for ever.
12. The sale of council bills by tender may be undertaken by the Imperial bank as agents for Government.
13. Having in view the heavy stock of rupees at present in the currency office, *and, in addition*, what is held by

    The Imperial Bank of India,
    The Exchange Banks,
    The Indigenous Banks,
    The Shroffs and moneylenders in the bazaars—chetties and others in the outlying districts.

To the considerable amount in the aggregate which must be continuously held in the custody of the many thousands of industrial concerns operating in India, to the equally tens of thousands of shopkeepers, and to 90 per cent. of the population of India whose daily transactions must of necessity be by means of rupee transactions, it is evident that the amount of rupees outstanding in circulation to-day—even assuming a liberal figure—is barely sufficient for daily requirements. There is, therefore, no necessity whatever to contemplate the sale of any portion whatever of Government's Stock, which really ought to be looked upon as a necessary reserve for not far distant requirements.

culated dealing with the suggestions for a scheme of a gold standard leading to a gold currency. The first postulate is to stop all further coinage of rupees. Will you kindly favour us with your opinion on that proposition?—I find it somewhat difficult to reconcile that proposition with the proposition in No. 13, which assumes that the existing silver holding of the Government will be very readily and rapidly absorbed, and apparently it is contemplated that when that absorption is completed there will be a sudden cessation of any further demands for silver. I find it rather difficult to reconcile those two propositions. You are assuming in No. 13 that the excess silver holding which the Government now hold will be soon required for not far distant requirements. If that is so, the desire of India for a silver coin is apparently assumed by you to continue, though in No. 1 you contemplate it shall suddenly come to an end.

11,567. Would not that be rather strengthening No. 13 than weakening it?—That is not how I see it. I am only dealing with you on the propositions themselves. You recognise that there is a demand for silver which will rapidly absorb the excess holding of 40 or 50 crores, and that after that has gone, in some way or another you will be able to impose a radical change in the habits of the people which has led to that absorption by denying them suddenly any further silver. I find it difficult to fit those two together.

11,568. The present holdings of rupees in India amount to about 75 crores, do they not?—75 or 80 crores.

11,569. You do not want to add to those rupees?—No.

11,570. Therefore I postulate that we stop coinage for the time being?—For the time being, undoubtedly. That is admitted.

11,571. Now No. 2—that the future issue of Notes should be gold mohur Notes convertible into gold for export purposes only. Will you favour us with your opinion on that suggestion, bearing in mind that such Notes are fully convertible into rupees?—I take it that that suggestion has to be considered in connection with No. 5, which contemplates that gold should flow to India for banking purposes, as distinct from social purposes, on a substantial scale, and that Notes should be issued against gold rather than against sterling securities. On that point I would only say that, as the gold is *ex hypothesi* not to be available for internal purposes, it is expensive from the point of view of India, and offers no advantage to cause large amounts of gold to go to India merely to send them back again to this country for the purpose of adjusting an unfavourable trade balance. You lose the interest obtainable by holding sterling securities and no advantage is to be got from making the gold perform unnecessary travelling, because you yourself indicate that the gold is to be for export purposes only. That being so, the requirements of a gold standard can be more efficiently given by reducing the actual physical gold movement to much smaller dimensions than this seems to contemplate and by holding gold securities in your note reserve.

11,572. Would not the possession to a holder of a gold mohur Note, which carried with it the right to claim gold for export at any time, do away with all the grave disadvantages which our currency system in India has experienced since 1914?—I do not see that it would in itself do away with them, because you have still to consider the existing large holding of Notes which would not be of this character, and the very large holding of silver rupees for which a suitable place has got to be found, and which, as far as I understand these proposals, will still continue to exist.

11,573. Your silver rupees are exchangeable into your Notes?—Into these gold Notes?

11,574. Certainly?—If the silver rupees are exchangeable into the gold Notes, you are then faced with the question of converting the large returns of silver which you receive into gold.

11,575. Exactly?—At a very substantial loss.

11,576. For export?—But the silver rupees are going to be exchangeable for gold Notes. In other words, you are not only going to issue further additional currency against gold, but you are going to enable existing rupee currency to demand gold for export, because you say now that which I did not understand before, that the silver rupee is to be convertible into a gold Note. That being the case, your obligations in regard to the size of the requisite gold holding are much greater than I imagined when I first read this paper.

11,577. I will repeat my question again: Future issues of Notes so that in the ordinary course of events your existing issues would, as they come in, be cancelled, until at some period your total issue of Notes would be gold mohur Notes?—May I put this question? You will be having silver tendered to you in exchange for gold Notes?

11,578. Exactly?—The backing for those gold Notes must be gold, but you have only at present received silver. Therefore you are under the obligation to convert your silver into gold?

11,579. That is exactly the object—so that we can no longer be faced with that hesitation on the part of any Government authority of refusing to give reverse councils when the exchange position demands it?—As I see it the scheme appears to me to be this. The Finance Department's project contemplated the exchange of gold coins for rupees. Your project contemplates the exchange of gold certificates, in effect, for rupees. You would yourself be brought up against all the difficulties which I have gone into in dealing with the Finance Department's scheme in connection with the possible demand on yourself for gold; and also with the difficulties that would attend the sale of large amounts of silver. In fact you would be up against the sort of difficulties which I dealt with in memorandum No. 3, because the scheme does not appear to differ in that particular from the Finance Department's project.

11,580. Would it not be possible for you to envisage a position whereby, exchange falling to the export point and the Banks desiring to maintain exchange, they should know that with their gold Notes in their tills all they had to do was to take them to the currency office and claim gold for them without having to wait for any notification?—The statement I made at the opening of to-day's meeting made it perfectly clear that the Banks would, on demand, be able to obtain the equivalent gold exchange without any question of notices issued *ad hoc*.

11,581. (*Chairman.*) And to an unlimited amount?—And to an unlimited amount.

11,582. (*Mr. Preston.*) Then, according to the statement which you made this morning, your idea now is unlimited acceptance of imported gold at par and the unlimited issue of gold for export at par?—No. I said gold at par or, at the option of the Bank, an equivalent amount of gold exchange payable in any country outside India approved by the Governor-General in Council and maintaining a free gold market. I have all through laid great stress on the fact that the option between paying gold, or equivalent gold exchange, must rest with the Bank.

11,583. If the option rested with the Government of giving exchange instead of gold, then perhaps your contention might hold good; but I would repeat again, if you say that the option of taking foreign exchange or gold rests with the caller, would it not be correct to say that your proposition is the unlimited acceptance of imported gold at par on the one side, and the unlimited issue of gold for export at par on the other side, because you say it is at the option of the caller?—No. I say it is at the option of the Central Bank.

When I said the word "Bank" what is meant is the Central Bank. What I read out were two draft clauses regulating the Central Bank, and whenever "Bank" is mentioned it means the Central Bank.

11,584. (*Chairman.*) You have been momentarily at cross purposes.

11,585. (*Mr. Preston.*) Perhaps it was my fault. (*To the Witness.*) That is very excellent, because that rather enlarges the scope of that clause. I would repeat again that what our difficulty has been—and it is well within your own knowledge—is the hesitancy on the part of Government hitherto, and the delays. Whenever weaknesses appeared either from political crises or commercial crises, or crises resulting from bad monsoons, we have always been in the position of supplicants. We have had to go and press for a certain policy to be carried out, and my idea of the best means of getting away from that was to have had a Note so framed that we could call for the gold or for the foreign exchange on presentation of the Note; but this morning you have gone beyond that, and you now say we should make it statutory—unlimited acceptance and issue of gold?—Yes. I hope the scheme which I suggested this morning meets the point and will get rid of any question of the hesitancy to which you refer as having characterised proceedings in past times.

11,586. That improves that clause immensely. Now No. 4: "Council Bills shall only be sold to the actual extent of Government requirements."—On that, I observed on a previous occasion that all remittances made to this country are for the purposes of the Secretary of State. What I understand the clause to mean is that after drawings to the extent of Government requirements in the broadest sense—that is to say, present and prospective, on revenue account and on capital account—have been made, gold should move to India and should form a backing for an emission of Notes in lieu of sterling securities which, under present and past practice, have very largely taken the place of gold for that purpose. I pointed out in the initial observations on that point that in so far as this gold was not required for internal purposes there was no particularly apparent advantage in forcing it to move to India with the prospect of having to move it back again in the event of an adverse balance of payments arising at any time and losing interest by holding idle metal in lieu of investments; and in the early discussion with you I said that the position of remitters from India at such times would be absolutely safeguarded by statutory clauses imposing certain obligations on the Central Bank.

11,587. Yes, and the explanations which you have tendered in answer to questions put to you this morning would also be a part answer to that question. I will pass on to No. 6: "Legal tender of rupees not to be disturbed."—I entirely approve of that.

11,588. No. 7: "As soon as the new parity has been finally decided upon, the rupee value of the gold and sterling securities in the paper currency reserve to be written up to the new parity, and a sufficient amount of securities from the gold standard reserve to be transferred to the paper currency reserve to wipe out the *ad hoc* securities." Would you give us your opinion on that suggestion?—When a new parity has been laid down the gold and sterling held by the Government must be revalued in the light of that parity. As regards the question of adjusting your holding of real assets between the two reserves, that appears to be in part a bookkeeping matter, because your real assets would not, in their aggregate, be altered. Whether it would be found convenient in practice to blot out altogether the *ad hoc* securities by substituting real assets from the gold standard reserve seems to me to require some reflection. I think the amount of the *ad hoc* securities, on the assumption of a 1s. 6d. exchange, would be something like 43 crores. The gold standard reserve is 53 crores, so the residue which you contemplate in this clause would be just 10 crores. But you have got a large silver liability outstanding, and when you get back silver in excess of 10 crores as a return from circulation, the question would arise as to how you were to deal with it. Under a scheme of the kind you assume such silver would not be able to go into the paper currency reserve, because you are contemplating that any future issues of currency should only be against gold. Supposing you had sold sterling securities in London, held on paper currency reserve account, and you had got rupees in India: those rupees would not be able to go into the paper currency reserve to take the place of those sterling securities, and you would be in some difficulty. You would probably be forced to recreate your *ad hoc* securities.

11,589. After the writing up of the securities we would have a surplus in the gold standard reserve of something like 13 crores of rupees, would we not?—Some such figure.

11,590. That brings me to the next question: "Any balance remaining in the gold standard reserve to be converted gradually into gold and shipped to India." What effect would that have on the contention which you have just mentioned?—If you received rupees back against a redundancy of rupees, what would happen would be that gold would go out. If you got back more than your 10 or 13 crores of rupees you would not know where to hold them, because you would have had to have met them by drafts on the sterling assets in the paper currency reserve, which would be *pro tanto* deficient, and you would not be able to fill their place with the rupees, because you have debarred them from the reserve. You would, in a case of that kind, I think, have to recreate your *ad hoc* securities so as to take the place of the sterling withdrawn, and the rupees would then presumably be held in the gold standard reserve again. I do not think there would be any advantage in introducing that complication.

11,591. *Ad hoc* securities to-day, in the paper currency reserve, represent deficiencies which were created owing to certain operations, we may call them, and really, in so far as security goes, they amount to nothing more or less than I.O.U.'s of the Government of India, not even carrying interest. Is not that so?—That is so.

11,592. Then would it not be a reasonable suggestion to say, as you do say in Clause 5: "There appear to be strong arguments in support of the view that the gold standard reserve should be maintained as a separate fund"? Later on you say: "It would seem scarcely consistent with his present responsibilities that he should hand over the control of the reserve, which must be employed for the support of the exchange, to another authority." Suppose you were transferring a sufficiency of gold to extinguish these worthless securities, which under no circumstances can ever be looked upon as a support to exchange, and supposing gold was going into your paper currency reserve, which would become a very strong support to exchange, and that the balance of actual gold was being shipped to India, still to form the nucleus of your gold fund, should it at any future date be decided upon to issue gold coins, what then?—The operation would not have increased the aggregate real assets held by the Government. You would have extinguished some securities which are of no real value, as you yourself indicate, but your real assets which are of value would not have been increased. It would be merely an accounting matter how they were exhibited.

11,593. So practically what we would be doing by that operation would be still maintaining the strength which we possess to-day in one fund instead of two, and by that writing up get rid of what is to-day a worthless asset?—That is so, but the real point is that you continue to hold the real assets, and, if you substitute securities from the gold standard reserve for

the *ad hoc* securities, you may conceivably find yourself in an embarrassing position, having to re-arrange your accounts to meet a change in the currency position.

11,594. With regard to No. 10, you told us some days ago, in reply to a question put by the Chairman: "I agree with a thoroughly efficient gold standard without degradation of the rupee" but you added "and without gold in circulation."—Without promoting a gold currency for circulation.

11,595. I would now put to you this. Clause 10. "Full liability to legally establish a complete gold currency—not before the Fund of £100 million has been accumulated." It might take a period of 10 years or longer. Will you kindly favour us with your views on that point?—In dealing with my memorandum No. 3 I went into the preliminary work which is required on the showing of the Indian Finance Department's memoranda with a view to establishing a gold circulation in India. I apprehend that some preliminary operation of the kind of which the Finance Department's memoranda speak will be necessary. The scheme you have been good enough to put before me does not deal with that preparatory work to any extent. I think if you come to consider that preparatory work you will find yourself brought up against the criticisms which have been discussed in connection with memorandum No. 3 dealing with the Finance Department's project in India, because you would still have in existence the unlimited legal tender silver circulation and the large amount of silver coin also at present unlimited legal tender in store; and at some stage or other the potential liability involved in that position would have to be tackled.

11,596. We have it in evidence in India that, acting on the assumption that council bills were only sold to the full extent of the Government's actual requirements, India could accumulate on a yearly average between five million pounds and ten million pounds of gold annually?—In the currency reserve. That is altogether apart from the social intake.

11,597. So that if India were prepared to accept the onus of cost on such propositions, would you agree to their doing so?—I do not think that the accumulation of £100,000,000 of gold in the way you suggest, even assuming it to be done without disturbances to which India could not be indifferent, would in itself enable you to carry through the operation, because you would have against that £100,000,000 of gold an emission of gold certificates, in effect, under this project, and you have still got to face the point that there is in India a large amount of unlimited legal tender silver currency which at some stage or other may come upon you as a demand and which you have to be prepared to meet. The project that was considered in India in regard to that liability was to draw upon the existing gold or sterling assets for the purpose of wiping it out. You would, I think, have to face the same problem under a scheme of this kind, and this paper does not indicate how you would deal with that particular problem.

11,598. May I pass to No. 13. "Having in view the heavy stock of rupees at present in the Currency Office, and, in addition, what is held by the Imperial Bank of India, the Exchange Banks, the Indigenous Banks the Shroffs and moneylenders in the Bazaars—chetties and others in the outlying districts to the considerable amount in the aggregate which must be continuously held in the custody of the many thousands of industrial concerns operating in India, to the equally tens of thousands of shopkeepers, and to 90 per cent. of the population of India whose daily transactions must of necessity be by means of rupee transactions, it is evident that the amount of rupees outstanding in circulation to-day—even assuming a liberal figure—is barely sufficient for daily requirements. There is, therefore, no necessity whatever to contemplate the sale of any portion whatever of Governments Stock, which really ought to be looked upon as a necessary reserve for not far distant requirements." I take it you agree with that?—Yes, broadly speaking. I think the scheme for selling silver will be found on examination, assuming reasonable data for absorption and an appropriate difference between buying and selling price, not to offer any sufficient prospect of pecuniary gain to the Government in the long run to justify the operation.

11,599. (*Sir Maneckji Dadabhoy.*) I would like to take you back to your memorandum No. 4. I do not exactly follow your scheme for the creation of a new Reserve Bank which you advocate, and which you said should take over the banking duties now discharged by the Imperial Bank, along with any additional banking and currency function now discharged by Government that may be deemed suitable for transfer to the bank. I gather that you would, if this new Reserve Bank is created, allow it and the Imperial Bank of India to continue as separate entities?—My idea is that they should be two banks under different directions.

11,600. As separate entities?—Yes.

11,601. Governed by one statute, or by two different statutes?—The Central Bank would have its own independent statute. The Imperial Bank's present statute would have to be re-examined, and would no longer be suitable if it became a commercial bank pure and simple. The present limitations on its functions would require to be considered, because it is clear that if it is converted into a genuine commercial bank pure and simple, some of the limitations on its present business would no longer be required to be maintained.

11,602. You would have Government representation on both banks?—No. I should contemplate that the Government's representation would be concerned with the Central Bank, and that the Commercial Bank should be subject to the general banking law of India, which I should hope would be sufficient for the purpose.

11,603. And this Reserve Bank will hold Government balances?—They would be deposited with the Reserve Bank, which would make appropriate use of them.

11,604. This Reserve Bank will have the power of Note issue?—That is contemplated. That is an essential part of the scheme—that it should be a bank of issue.

11,605. Will this Note issue be done in the name of the Reserve Bank, or on behalf of the Government of India?—It should be in the name of the Reserve Bank. You will understand, as I stated at the outset of Memorandum 4, that that is based on the view that the Commission are satisfied from the evidence taken in India that no untoward consequences are to be expected from the replacement of a Government Note by a bank note.

11,606. Then this Reserve Bank will not be acting as agent of the Government of India in any circumstances?—Only in so far as it is employed as the agent of the Government of India to hold the Government balance, and to carry out on behalf of the Government certain other duties, some of which are now discharged by the present Imperial Bank, such as the management of debt, and other things of that sort, which are entrusted by Governments habitually to banks. The bank will act as the agent of the Government in those sort of matters.

11,607. Would you hand over all the reserves to this Reserve Bank?—The reserves would both be handed over to the Reserve Bank for administration. The reserve against the Note issue, and the reserve against the silver rupee, might be held separately, but they would both have to be dealt with in the statutory provisions regulating the constitution of the Bank.

11,608. Let us consider how this Note issue question would affect public confidence. Do you think if this Reserve Bank is permitted the power of issuing Notes, its issue will carry the same amount of confidence as the Government of India Note issue?—I

feel that the authorities, whom the Commission must have consulted in India, can give you better guidance on that subject than I can. Speaking from such knowledge as I have of Indian affairs, I should hope that if it was known that the Reserve Bank was such as to have been entrusted by Government with its balance and with other responsibilities, the public would have confidence in the promise to pay of that bank.

11,609. You have been connected with the Secretary of State for many years in various capacities, and you also know the chequered history the note issue has gone through in India, and how it was the war emergency that brought it into more prominence and gradually made it more popular. The notes were not regarded from the same favourable standpoint before the war as they now are. If you give this power of issuing notes to a new agency altogether, bearing in mind the fact that the Indian public is accustomed to look upon the Government of India as the traditional agency for the purpose of issuing notes, is it not likely that you will be incurring serious risk by going in for a measure of this kind?—Those are most important considerations which have to be remembered, but one must realise that it often is emergencies such as the kind that you have referred to that in the end do promote good banking habits. I believe it is the case that in France deposit banking received an enormous impetus from the events that happened after the Franco-Prussian war, which induced the peasants of France to bring their savings to the banks. I do not regard the fact that the development of the note issue has taken place only recently, and in circumstances such as you indicate, as being any ground for apprehending that there will be a setback in the note issue, provided that the people of India are given evidence that the note issue is under statutory control, and is in the hands of the authority in which the Government itself has placed the greatest possible confidence, and has shown the greatest possible confidence by depositing its own balance.

11,610. I put it in this way. The Imperial Bank of India has been in existence for the last five years, and so far has done well. There has been no conflict between the Government of India and the Imperial Bank of India on the matter of its general policy. The two apprehensions (*a*) and (*b*) which you have mentioned in paragraph 2 have also been secured. It also should be borne in mind at this stage that a genuine central bank of the character which you have delineated is not a possibility in India for many years to come. Is there any objection to the note issue being left to the Imperial Bank of India as it is at present constituted, either as agents of the Government, or by giving the Imperial Bank full power to issue its notes?—The efficiency of banking throughout the great continent of India seems to me to depend in the last resort upon the creation of a strong central banking institution which would hold the ultimate banking reserves of the country. My view is that it is desirable that a bank vested with the responsibility of holding the ultimate banking reserve of the country should not be itself a bank engaged in the business of ordinary commercial banking which in some respects may involve risks unsuitable for a Central Reserve bank. It is most desirable now that an opportunity has come for going into this question to give India the best and most approved system in the light of modern experience. Point (a) to which you refer in my paragraph 2 has not, of course, at present come into practical evidence, because the responsibility for currency management in the country has hitherto rested with the Government which is a body detached from commercial banking. I think, therefore, that one wants to preserve that detachment if one is going to hand over active responsibility for currency control in India to a bank—in other words, that the bank should be itself detached, as far as may be, from the ordinary operations associated with commercial banking.

11,611. Quite so; but apart from this question of currency (of course the currency has not been handed over to the Imperial Bank) has there been any serious complaint by any other bank that the Imperial Bank of India has carried on its trade work in derogation of the interests of any other banks in India?—Not that I am aware of, but you will realise that the position might be different if further wider responsibilities and privileges were to be given to a Bank which is a commercial bank. You realise a new factor would be introduced into the case if wider responsibilities and privileges in regard to the note issue were conferred upon what is very largely an ordinary commercial bank. At present these privileges and responsibilities have not been so conferred, but the attitude of other banks to which you refer might be affected by the fact that a change in the nature of the responsibilities and privileges of the Imperial Bank was in question.

11,612. In answer to Sir Purshotamdas Thakurdas you stated that the Government of India as a big depositor has a right of controlling its deposits and regulating general policy in these matters. Does not the present agreement with the Imperial Bank of India provide for all these necessary safeguards?—Under present conditions the Government is complete master of its own deposits.

11,613. Am I also to gather that throughout your scheme you wish to keep the Secretary of State for India supreme in the matter of directing the financial policy?—I have suggested that as regards his own deposits with the bank he should not be placed under conditions more adverse than apply to other large depositors with the bank. As regards general policy my idea would be that if a genuine central bank is created provision should be made for his keeping in close touch with the bank and knowing what is going on; but that the active direction and control of policy would rest with the bank, subject to the Government's holding a watching interest in the policy so carried out.

11,614. I see your point, but can you enlighten the Commission as to any other country in the world with a central bank where the Government keeps powers of control or interference in the matter?—In the case of the bank of France—Sir Henry will correct me if I make a mis-statement of fact—the Governor and the Deputy Governor are appointed by the Government and are in constant touch with the Government. The higher policy in finance as carried out by that bank in ordinary times has been based upon the action and direction in the main of the Governor and the Deputy Governors, who are closely *lié* to the State. I believe also that in the case of the Federal Reserve Board which supervises the operation of the Federal Reserve banks, the Secretary of the Treasury is an *ex officio* member, and a very important member in practice, of the Federal Reserve Board. Those are two instances.

11,615. I quite realise that point, that the appointments should be subject to Government control, and they should have the sanction of the Government; but in paragraph 3 you state something more than that. You say: "It is necessary to ensure that the Government should have an effective voice in regard to the higher financial policy of the bank, though the management of its day-to-day business would continue to rest with the bank's officers." You are speaking of "an effective voice." That means something more than the mere obtaining of sanction for the appointment of the Governor and Deputy Governors?—Yes; but you will realise that that clause from which you are quoting is subject to the previous clause which deals with the discharge of an additional responsibility by the Imperial Bank without any material change in its present constitution. In our questions now we are not dealing with this position, but with the alternative which is referred to in the previous portion of this memorandum of the creation of a genuine central bank, and I have all through tried to make

it clear that my attitude on the subject of the Government's intervention in regard to the conduct of central banking functions by a commercial bank, must be different in its general character from the attitude of Government to the conduct of central banking business by an exclusively central bank. I cannot lay too much stress on that. It is a point which I brought out in my examination by the Chairman, and I would like to take this opportunity of reasserting it.

11,616. With the constitution of the Central Bank would you still insist on the ultimate responsibility for the maintenance of the exchange being left to the Secretary of State?—I have suggested that a statute on the lines that we discussed before should define the responsibilities of the central bank in regard to the maintenance of exchange, which responsibilities, if carried out on the lines indicated, would absolutely ensure the gold value of the rupee. In that way you will see that the Indian Legislature which would have passed the Act concerned would have taken the responsibility for the general line of policy imposed upon the Central Bank. It should be for the Central Bank in the day-to-day conduct of the Indian money market to ensure that the responsibilities vested in it by the statute of the Indian Legislature were properly carried out. I have said that I think it is important in the case of India, particularly where a sort of break of gauge is contemplated, to keep the Government associated with the Central Bank, as is the case with the Federal Reserve Board of the United States, and as is the case with other central banks, though the method of keeping contact differs in different cases. I think for the same reasons that you yourself have given, namely, the attitude of the people of India and the commercial community in India towards the Government, additional confidence would be felt in India if the liaison is explicitly recognised.

11,617. Will you confine this maintenance of the additional responsibility in the matter of exchange to Government remittances, or also to remittances for trading purposes?—As regards the remittances for Government, for its own purposes, the Government would be in the position of any other large depositor with funds at the bank. In other words, it would be master of its own funds. It would be able to express to the bank its desires regarding the translation of rupee funds into sterling funds as might be required from time to time to suit its purposes. But it is obvious in carrying out its policy in regard to these funds it would be working with the guidance of, and under the influence of, its expert finance advisers; that is to say, the direction of the Central Bank.

11,618. (*Chairman.*) If possible, let us keep the evidence to a single subject at a time.

11,619. (*Sir Henry Strakosch.*) You just dealt, in reply to the questions of Sir Maneckji Dadabhoy, with the question of the Government association and control in the affairs of a real central bank. Am I right in saying that your view is that this association should only take the form of the Government appointing the Governor and Deputy Governor, and having some minority representation on its Board, and that you rule out the limitation suggested in your memorandum as regards a finance officer being represented on the Board who has a right of suspensory veto; and do you also rule out the provision in the present Imperial Bank charter (I believe it is Clause 10 (2)), empowering the Government to issue instructions if the policy of the bank does not appear to the Government to be the right policy?

11,620. (*Chairman.*) Before Mr. Kisch replies I might remind him of his answer to a similar question on the third day when I was examining him. I said: "Supposing a true reserve bank were to be founded, would you still think it necessary to continue the suspensory veto of Government directors and the power of the Government to issue instruction as regards the note issue?" and the reply was: "In such a case I should regard it as right to entrust the bank with a much wider degree of responsibility. As I said on the last occasion, I consider that in any event, in the circumstances of India, close association between the bank and the Government would be necessary, but I should hope that in such a situation the bank would do the work and the Government would be able to look on with tacit approval. If, on the other hand, the bank were to do something which the Government consider contrary to the supreme financial interests of India which might jeopardise the exchange or the security of its balances, I consider it would be desirable that the Government should have some right of intervention. I apprehend that in practice it would practically never have to exercise its right."

11,621. (*Sir Henry Strakosch.*) It is on that very point I should like to have Mr. Kisch's views, because I think he has somewhat changed his mind on the subject since he made that statement to the Commission?—Broadly speaking, that represents my view. I do feel that in the case of India one must provide for close association, and I think that in the case of India one of the representatives appointed to the Board of the bank would in practice be a high financial officer of the Government, capable of making the views of the Government felt, and who would report to the Government on any matter which he thought worthy of very serious notice. It is a difficult question to know whether the statutes of the bank should give the right to the Government representative to suspend action pending reference to the Government, or whether it should give him a right of conveying positive directions from the Government. I daresay one's attitude on that point would not necessarily be the same now when you are starting a bank as it would be after you had ten years' experience of the working of the bank. I want the bank to start with the feeling that it has got the maximum confidence of the Indian public behind it. If the view was held that that confidence would be increased by giving in so many terms a right of suspensory veto to the Government representative, I think that, in spite of the fact that it would be rather an unusual provision, it might be worth having for a period of ten years. It we found after a period of ten years that that particular provision was in practice unnecessary, and that confidence in the bank had been absolutely established, that is a clause which then might disappear. I should feel very much guided in that kind of thing by what people with knowledge of the Indian public tell me as to the way in which they would look at such a bank. If they would look at it in an entirely different way if there was a Government official with a suspensory veto, then I should accept it. If, on the other hand, they tell me that if a Government representative is present they would have full confidence in it, knowing that the bank will always in practice conform to any strong wish expressed by him without any formal suspensory veto, then I should say it would not be worth while to insist upon such a provision. I do not know whether my opinion on that point is of any particular help to you, Sir Henry.

11,622. Well, it is certainly a help, but I am afraid it runs counter to the very definite view generally held that banks, and especially banks of issue, should be free from all Government control. As far as I am aware, there is no bank charter in existence which gives the Government the right of such a suspensory veto?—No.

11,623. I was very anxious to hear your views about it. The Brussels and Genoa Conferences have definitely, and in identical terms, laid down this proposition?—The Brussels and Genoa Conferences were held under the influence of circumstances in which Governments driven to desperation had grossly abused the principles of the note issue. I can

quite understand, and absolutely agree with the proposition as a general case. But in dealing with India we have to realise that we are dealing with a country where banking progress is comparatively recent, and where the people have been habituated for very long periods to look to the Government with a degree of confidence which is probably not vouchsafed to Governments anywhere else. I think there is a difference in the case of India from other countries from that point of view.

11,624. I am supposing that a true central bank is set up whose charter provides very definite limitations as far as the character of its business is concerned, and of course, so far as the right of note issue is concerned. To test the utility of such a suspensory veto or interference by the Government, in what circumstances would you regard it as necessary for the Government to interfere in this manner? What are the conceivable circumstances in which the Government would do it?—The kind of circumstance would be when a question might arise as to stiffening the rate of discount in India, or contracting circulation. It is conceivable (I do not think it is likely) that there might be a difference of view as to what a particular situation desiderates. It would be difficult to say which party would be right, but it is conceivable that there might be such a difference of opinion, as there have been differences of opinion in this country, regarding the policy of a central bank on the part of important members of the public at different times.

11,625. Under a properly constituted central bank the movement of reserve funds in the issue department is surely a very clear indication whether contraction or expansion is advisable. Where does the Government's superior knowledge come in?—The Government would not have any superior knowledge. It would be largely a question of creating confidence. I have looked at it from the point of view of creating confidence and lending support to a particular policy. The fact that they are thoroughly identified with the bank would presumably act as a protection to the bank against adverse criticism outside, and would strengthen its independence. That is the position. It is a question whether the independence of the bank *vis-a-vis* outside parties would be strengthened by the close association of Government in this way, or whether it would be weakened. I think in the circumstances of India there is some ground for holding that the confidence of the public might be increased and the independence of the bank might be strengthened. You will realise that the position of the Indian Government is different from that of the ordinary political government with which we are familiar in Europe generally.

11,626. You put it on the score of confidence. Would you feel more confidence in a motor where you have one driver in complete control of the accelerator, brake and clutch, or where you had two people in control, one of whom would have the power to put out of action at any moment your accelerator, your brake, or clutch?—Well, of course, there is only one answer to that question, but the real point is whether the analogy holds, because there would not be two people working the machine. The machine would only be worked by one authority. The only question is whether a right decision is more likely to be arrived at with two heads thinking the thing out than with one. I should put it very largely on the score of confidence. I feel sure that people who have more first-hand knowledge of Indian conditions than I have would be able to advise you. I can only give you my impression, having regard to the general attitude of Indian opinion to Government.

11,627. I would also like to know in what way the association of the Secretary of State with the Advisory Committee of the Central Bank in London could be helpful in avoiding wide fluctuations in the purchasing power of gold, which are really the functions of co-operation amongst central banks.—The point that I had in my mind was this. In the regulation of exchange between India and this country as we have seen it working in the past when we have had a fixed upper gold point at which drafts on India were sold without limit, questions have arisen of movements of gold to India to a greater or less extent. The extent of those movements of gold from this country to India is influenced by the policy of the bank in regard to the sale of rupee exchange. It is conceivable a situation might arise—I think Mr. Preston referred to this in his memorandum, where there might be an alternative open to the bank of selling rupee exchange to a greater or less extent, thus decreasing or increasing the actual movements of gold. That seems to me to be a question where the views of the Central Bank in a great gold centre like London would be very vital to a proper handling of the matter from the point of view of the interests of India and other countries; I am only suggesting that in a case of that sort the views of India on the point might be put, as far as they were of value and importance, to the Central Bank here with authority by the natural spokesmen of the Government. That would be one case. Another case which I had in mind would be this. Take, for example, the holding of the large gold reserve fund of 50 crores or so invested in this country, which at present is the property of the people of India. I think it is right in a matter of that sort where the investment has to take place on this side, that the authorities here charged with the supreme interests of India should note what is going on and keep in close touch with what is happening, as is the case at the present moment, in regard to the investment of these large funds, in regard to which, of course, the Secretary of State has the advantage of expert financiers, not officials only, to help him.

11,628. In other words, you would not be satisfied with an obligation put upon the bank to buy and sell gold or gold exchange at fixed points?—That is an absolute obligation. They would also be selling rupee exchange in the ordinary course of their business, I suppose, much in the same way as rupee exchange has been sold in the past. Gold could always go.

11,629. Within two gold points?—Quite so.

11,630. To maintain the purchasing power of the native currency in terms of gold?—Yes.

11,631. There are one or two questions I should like to ask you in regard to your proposition of retaining the present system of a paper currency reserve and a gold standard reserve. I suppose you will agree that any currency system should be comprehensible to the ordinary public?—That is a very important desideratum.

11,632. And therefore the function of those two reserves would have to be closely defined in the bank charter?—That is so.

11,633. Would you describe the function of the one and the other? Let us take the paper currency reserve first, and then the gold standard reserve.—The paper currency clauses would have to deal with the fiduciary issue, its limitation in amount and its form of backing. It also would have to deal with the requisite provisions for ensuring the internal convertibility of the note into the rupee, assuming that that continues in the future as it has done in the past to be an essential factor of the paper currency reserve. Provisions dealing with the gold standard reserve would have to lay down the general range of security which is admissible as a holding of that reserve, and would have to impose upon the authority charged with its administration an obligation of maintaining its corpus under the varying influences which may affect the form of holding at different times.

11,634. You have not quite answered my question as to the purpose of these two reserves. Do I understand you to say that the paper currency reserve is merely to ensure internal convertibility of the notes into rupees, and the gold standard reserve is merely

to maintain the external value of the rupee?—I do not say that those are the two functions, and that the two functions can be separated in that way. I have only indicated that the function of the paper currency reserve at present differs from the function of the gold standard reserve as it is at present. The employment of the paper currency reserve by the Central Bank would be influenced by their policy in regard to the cardinal duty of maintaining the exchange at the fixed level, that is, between the gold points.

11,635. And the paper currency reserve?—Their function of controlling the size of note issue from time to time would have to be carried out with regard to their responsibility for maintaining the gold exchange value of the currency.

11,636. Of the currency or of the notes?—In practice it would be effected by the contraction of note issue.

11,637. Or contraction of the rupee issue. Can you control which kind of token money you are going to contract?—No. You are getting returns, of course, in the two forms.

11,638. Exactly.—And the functions must overlap. The question, as I understand it, between us is whether you should have one account which included the gold standard reserve on both sides, or whether you should have a note issue account such as we are familiar with in the case of the other note-issuing banks, and a second account which would be on the one side gold standard or sterling assets, as it is at present, and on the other side corresponding liability, which I suggest might be in the form of Government deposits equivalent in amount to gold reserve assets. The position would be that there had been in theory a deposit of Government funds aggregating 53 or 50 crores, as the case might be, and on the other side there would be an exhibition of securities representing assets held against that liability. So it is really only a question of whether those two should be aggregated into one account, or whether they should be in two separate accounts. The use of them would overlap, and the bank would have to decide, as circumstances might be, as to whether it exhibited a contraction of the circulation within the one or within the other. The aggregate effect on the circulation would be the same in either case.

11,639. I want to be convinced that the functions of the two reserves are so different that it is necessary to keep two reserves, because, as you are aware and as Sir Maneckji has mentioned, we do not know of any central note-issuing bank that does keep two reserves. You might equally say that in France a system might be adopted under which two reserves are kept, and for that reason I wanted to know from you what the functions of the two reserves are. As I understand it, you say that the paper currency reserve is there, first of all, to assure the convertibility of the notes into the other token, the rupee, and also to maintain the external value of the note and the rupee?—That is a function which its use and its proper employment bring about.

11,640. If I understand you rightly, the gold standard reserve is there to assure the external value of the note and the rupee coin because, as you admitted, you cannot control to what extent rupee notes or rupee coins would be tendered for foreign remittances?—That is so.

11,641. Is there, then, any very great distinction between the functions of these two reserves?—I do not think there is any great distinction between the functions of the reserves, but there is a distinction between the two liabilities because the note is the liability of the bank which has issued it and the rupee, which bears the King's head and is a coin issued by the Government, carries the liability of the Government. I do not know whether this other point has any bearing on the case, but if you maintain the two reserves separately it could be provided that the profits on the assets held in the gold standard reserve should accrue in their entirety to the Government. That could be provided for.

11,642. That is a very subsidiary point?—It is a subsidiary point. It is a point which just happens to have crossed my mind, and I just mention it. Those profits might of course go into the general fund of which the Government would get its share in the distribution of the aggregate profits of the bank at the end. That is only quite a subsidiary point, but I mention it. There is a difference between the silver note obligation of the Government and the paper note obligation of the bank.

11,643. I do not see how such a distinction can be made, because under the charter contemplated, the bank is obliged to buy and sell gold exchanges at fixed points against the tender of legal tender money?—Yes.

11,644. Therefore you cannot, in my view, separate the two functions. It is the function of the bank to maintain the external value of the rupee coin as well as the note?—That is so. I see a very close resemblance between the functions of the two. I have only suggested there is a distinction between the two, but I do not say that it is a decisive factor. It is only an aspect of the case, and I can quite see that a case, and a strong case, can be made out for adding the two up in one account. I have only endeavoured to put some of the points in which there does appear to me to be a distinction between the silver rupee issued by the Government as unlimited legal tender and bearing the mark of the Government, and the note issued by the bank and bearing the proof of the bank's issue on its face. There seems to me something rather unusual in adding two things together which carry the ultimate responsibility of different authorities.

11,645. But then I think you have just agreed that it is not the responsibility of the Government to maintain the external value of the rupee coin. Let me put it in this way. Let us suppose you had two reserves, and, as you have suggested, let the paper currency reserve be first drawn upon to maintain the external value of the rupee note or coin, and by that process the whole of the gold securities held in the paper currency reserve were exhausted, then would you not consider that the note-holding public would be very gravely disturbed if they found that the paper currency reserve, the reserve primarily serving to assure the value of the note, has been completely depleted of gold and gold securities? Would not that conceivably lead to a run on the bank and the return of the notes?—The public would see in the rather extreme case which you have sketched that the bank still possessed gold or sterling assets representing the holding in the second reserve. Therefore, in either case they would see that in the aggregate the gold and sterling assets held by the bank would be identical. Any such extreme case on the present basis would postulate the disappearance of something like 65 crores of gold or sterling held in the paper currency reserve, and there would be still held 50 crores of such assets in the bank's accounts.

11,646. Say half the reserves have gone—it does not matter what amount you take?—They would see that the bank was discharging its obligations in the sense of carrying out the liability imposed upon it by statute of giving gold or gold exchange equivalent against the tender of local legal tender money. If such a situation did arise there would be nothing to prevent the bank exhibiting a portion of that contraction in the other reserve, because I am not proposing to make it obligatory to use one reserve absolutely continuously to the full until its gold or sterling assets are exhausted before having recourse to the other. There would be some discretion to the Central Bank authorities charged with this responsibility of carrying on the requisite contraction, and they would in the kind of circumstances that you sketch out, always have open to them the possibility of exhibiting

some of that contraction in the gold standard reserve which would then, instead of holding 50 crores of gold or sterling assets, hold a smaller amount of gold or sterling assets plus a quantum of returned rupees.

11,647. You think that is easily intelligible to the public, to shift about drawing upon one reserve and another reserve indiscriminately at the sweet will of the Bank Board?—The aggregate result is the same in either case. As I say, this is a question in the main of the exhibition of a series of transactions. Frankly, I do see the force of the contention that the two might be amalgamated, but I have only tried to show that there are certain factors which may have some influence in the other direction. I fully appreciate that the question is one which is open to argument, and possibly one where different views may legitimately be held.

11,648. (*Chairman.*) I do not think there is any discrepancy, but it might be convenient to Mr. Kisch to turn back to the answers given on a similar point to Sir Reginald Mant, on page 42?—I should be very glad.

11,649. (*Chairman.*) I do not say there is any discrepancy, but this is what Sir Reginald Mant said: "If you made over both reserves to the Bank, but kept them, as at present, as separate reserves, on which reserve would the liability for securing external convertibility rest in the first instance? Would you first apply the currency reserve to meeting the demands for external exchange and only fall back on the gold standard reserve when the sterling resources of the currency reserve were exhausted?—(*A.*) I think that is the way I should look at it, speaking generally. I should rely on the contraction effected through the currency note reserve as being the appropriate method of dealing with the question of a redundancy of local currency.—(*Q.*) The gold standard reserve would remain intact as long as there were sterling resources in the currency reserve?—(*A.*) Broadly speaking, I think that is so. I do not know whether if you had a prolonged strain on the resources the question would in any way come up of utilising the one or the other. As far as I can see at present, it would not have any particular significance in that sort of situation as to which reserve you worked with, or whether you divided it between the two. In either case you would be capable of effecting the desiderated contraction, and in either case your aggregate gold assets would remain the same." Those are the questions and answers on the point?—I think they generally harmonise with what I have said, with this qualification, that this morning the possibility of absolutely exhausting the sterling assets in the paper currency reserve, which I suppose, includes for this purpose the gold assets in the reserve, is definitely put before me. If that somewhat remote and extreme possibility came about I think, as I said in these answers, it would be open to the central banking authorities to exhibit a certain portion of the transactions in the other reserve. The net effect on currency contraction would be identical, and as regards your holding of real assets, gold or gold securities, your position would be the same in either event. It would be a question of their exhibition. In fact, really, in the main, as far as I can see it, this is a question of the exhibition of the transactions, and not so much a question of real significance as regards the soundness of an Indian gold standard. That is so, is not it?

11,650. (*Sir Henry Strakosch.*) Yes. You mentioned a little earlier to-day that you submitted to us a draft of those clauses of the charter that deal with the obligation on the part of the issuing authority or bank to buy and sell gold and gold exchanges at fixed prices. But you did not tell us whether you contemplated that the bank should buy and sell at the one price or at prices with a margin such as, for instance, the Bank of England at the present moment makes. The Bank of England is under a statutory obligation to sell at 77s. 10½d. and to buy at 77s. 9d. Did you contemplate that the obligation of the central bank to buy and sell the gold should be at one fixed price, or at a lower buying and a higher selling price?—The Bank of England's obligation to buy at 77s. 9d. and sell at 77s. 10½d., I think I am right in saying, represents a survival of a situation which, to some extent, has passed away. The original 77s. 9d. represented an allowance for interest during a hypothetical period in which the bullion tendered to the bank was being converted into gold coin. That difference, I believe I am right in saying, represented in essence an interest charge; but at present there is no proper application of an interest charge because the tenderer of gold in this country cannot get gold coin. Is not that so?

11,651. I think that is so?—But in this draft that I wrote out to-day I had the word X grains of fine gold in both clauses, X grains being the figure taken for the parity of the rupee as may be subsequently laid down by the Commission. I did say in my second clause that it should be (that is in answer to your questions) gold at par, or, at the option of the bank, an equivalent amount of gold exchange less allowance for charges payable in a country outside India, approved by the Governor General in Council, containing a free gold market. So that my answer to the question is that the option resting with the Central Bank would, under this draft form, be gold at par, or, at its option, equivalent gold exchange less an allowance for charges in the gold centre concerned.

11,652. But in practice, having regard to the great demand of India for purposes other than money for gold, might not that lead to dissatisfaction on the part of people when they see in the bank charter an obligation upon the bank to sell gold, and then in each case the option is exercised, as it no doubt would be, to give gold exchange instead of gold?—The purpose of the clause in the charter is absolutely to anchor the rupee to gold, and it achieves that object. That is the purpose of the clause. If it does not achieve it satisfactorily then I cannot have drafted it correctly; but that was the prime object that I had in view. The demand of India for gold for social purposes would continue to be met by the ordinary channels, but in practice the bank itself would not be under an obligation under any conditions to issue gold for internal purposes, because we are here concerned with a standard which will absolutely guarantee the gold value of the rupee.

11,653. Would not the same effect be achieved by making it an obligation for the bank to buy and sell gold at prices which will enable the bank to replace any gold drawn from it, or any gold coming in by shipping it to the gold centre to be selected, where you can always get gold by statute in exchange for currency?—Yes.

11,654. The effect would be exactly the same?—That is a very interesting alternative which one wants to consider. In that case there would be a substantial spread between the bank's buying and selling price.

11,655. Certainly?—Well, now I wonder how that would appeal to the public in India as an alternative to this scheme.

11,656. It is no different from your scheme?—Except in so far as my scheme goes, it contemplates only one price, but there is an option with the bank of gold exchange. The scheme now suggested, I take it, would remove the option of equivalent gold exchange and impose, in effect, an obligation to sell gold on terms which would, in effect, quote the rupee at a discount as compared with the true par. Is that so?

11,657. That is so?—Then I am wondering really how the conception of selling gold on terms which quote the rupee at a discount would satisfy opinion.

The alternative that I have given, I hope, would convince the public that the gold parity of the rupee was secured, and it does not introduce the conception of selling gold on terms which may be represented as putting the rupee at a discount.

11,658. The conception may be all right, but in practice as the bank or issuing authority would have the option of giving gold exchange, it would in practice nearly always give gold exchange. It could not afford to give gold at one price if it had to replenish its store at another?—In practice that would be the case. Either scheme would presumably have the effect of anchoring the rupee effectively to gold. Either scheme would do that, so it is a question of the terms in which the obligation should be undertaken. I was trying to put to myself how that would function. We are anxious to bring out in the clearest possible way that the rupee is absolutely anchored to gold at a fixed parity. It does occur to me that there might be two criticisms from the point of view of the public, and one criticism from the point of view of the Central bank authorities. The public might say: "You have introduced into this scheme the conception of an actual sale of gold involving a discount on the rupee." I do not know what the figure would be, whether it would be 2 per cent. below the buying price, or something of that sort. They might say: "This seems to be a somewhat unusual provision with which we are not familiar elsewhere, and it does not seem to us to be quite in keeping with an absolute anchoring of the rupee to a gold par." Moreover, might not they say that in pre-war times the Government did make a habit of issuing gold to the public if Government had it, and could do so without inconvenience, that in those days the issues were at par, and that so far as the element of discount was introduced the scheme, though undertaking an obligation to sell gold on terms, was not so good as what they had before when gold was issued at par? Those would be two possible criticisms which I think might be put forward by the public. The other point which I think requires looking into, on the basis of figures which I have not got because I have not yet had an opportunity of working out this scheme before, is that in certain conditions of exchange the central bank would be the purveyor of gold to the bazaar. That situation would appear to arise at some point, either when the exchange was at exact parity, or fractionally below parity, when a person would find it more economical to get his gold for social purposes from the Central Bank than to import it from outside. In such conditions might you not be faced with a very large demand for bullion for social purposes which it might be inconvenient to the Central Bank authorities to meet, and which they would be called upon to meet at a time when they were either using, or threatened with the likelihood of having to use their gold assets for the purpose of maintaining the external value of the rupee? It seems to me that these demands would come upon you at the same time. If that is the case, would not the central banking authority have to fortify itself by a large gold holding, because the obligation to meet that demand would be an absolute obligation? Though it is true there would be time for replenishing, and so on, yet they would have to be ready to meet applications on demand. It seems to me that the central banking authorities, under certain conditions, might find the obligation an embarrassing one?—I should require to look into the figures before giving a considered answer on this question.

11,659. The same situation would arise if the exchange fell to below gold point and you gave exchange. The bank, in that case, would also have to see that its reserves are replenished by an appropriate discount policy?—In that case you would be using your reserves for the maintenance of the external value of the rupee but you would not be open to demands from the bazaar for large volumes of gold on demand for social purposes. In this matter one has to remember that the social demands for gold may be strong at a time when the exchange may be weak, because a social demand is a demand which arises from the bazaars and the needs of the people.

11,660. But does not exactly the same thing happen under your scheme? Supposing the exchange goes to the lower gold point, and there is a very insistent demand in India for gold for social purposes. The advantage to the bullion dealer then is that he can go to the bank and get his gold immediately; whereas by buying exchange he will have to go to London and ship his gold across, unless the issuing authority exercises its option, and, refuses to give gold, which would, I suppose, be disturbing to the confidence of the people?—Well, the obligation on the issuing authority in the discharge of its duty would be to supply gold equivalent at the gold centre. Under the other scheme there would be the actual obligation on the part of the Central Banking authority to produce physical gold over the counter on demand for consumption internally. Under this scheme the bazaar demand would not be focussed upon the Central Bank immediately in the form of a demand for physical gold over the counter. It would be focussed upon the Central Bank in demand for gold exchange which the purchaser would have to take, getting gold from the gold centre from which he was acquiring his gold, and then shipping the gold to India. There would not be a positive immediate demand for gold over the counter under this scheme. As far as I can see, that is an important difference between the two schemes.

11,661. If the bank exercises its option not to give gold?—If the bank exercises its option not to give gold. That seems to me to be the difference between the two schemes.

*(The witness withdrew.)*

# THIRTY-FOURTH DAY.

## Friday, March 12th, 1926.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Manekji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter. }
Mr. A. Ayangar. } (*Secretaries.*)

Mr. Cecil H. Kisch, C.B., re-called and further examined.

11,662. (*Chairman.*) Since the last occasion we have had the advantage of seeing your suggested draft* of lines on which a gold standard may be embodied in statutory form for India, and we have also had from you a very full statement† of those figures for which we asked you last time?—I hope those are the figures which are wanted by the Commission.

11,663. Perhaps some members of the Commission will have some questions to ask on those figures?—I may say that they have been prepared by the Accountant-General Department under conditions of unusual pressure, and they have not been subjected to the checking which is usual in these matters; but I have no reason to doubt their absolute accuracy.

11,664. (*Chairman.*) It was a very prompt undertaking of rather a large task. I do not know whether any member of the Commission might like to ask you questions on the figures now.

11,665. (*Sir Purshotamdas Thakurdas.*) You say in paragraph 4 of your memorandum No. 4, "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind," and then you go on to say "The action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead." These statements which you have supplied show that the net expenditure which is charged to revenue is under £30,000,000?—In 1922-23 the actuals were just over £30,000,000. In the next year they were £29,500,000, and in the current year there is a drop to just about £27,000,000 as estimated. In these years the figures range from approximately £27,000,000 to £30,000,000.

11,666. In 1922-23 the net expenditure, actuals, is £30,000,000 is it not?—And the following year, £29,500,000 and the next year £27,000,000.

11,667. Then I see the item "Capital expenditure net charged to revenue": "railways", "Bombay Development Scheme", etc. You deduct that from the "Net expenditure", do you not?—No. That has to be added for the purpose of computing the total outlay.

11,668. I see.—That first figure means what would have been denoted by the old popular term "the Home Charges"; that is to say, the revenue charges. The other is charge against capital defrayed in London.

* See Appendix 75 (A).
† See Appendix 75 (C) and (D).

11,669. Do these figures of the actuals show any material variation from the Budget estimates?—In the aggregate they are apt to show a substantial variation, taking the revenue and the capital charges together. The principal reason is, if you look for example at the years 1922-23 or 1923-24, that there was a very big drop in that year in what was actually spent in this country on railways from what was budgetted. That was due to delay in deliveries by contractors, and that sort of thing.

11,670. There is not much variation in the revenue expenditure is there?—The revenue expenditure is capable of much closer assessment, though in 1924-25 there appears to have been a drop of £3,000,000 in the revenue expenditure.

11,671. Therefore no estimate that was indicated at Budget time has gone against the Secretary of State in years referred to in your statement If anything the budget estimate gave him more funds rather than less?—In so far as the revenue expenditure goes, yes.

11,672. Regarding the capital expenditure, the Government of India, when they undertook such expenditure, knew exactly how much would be required?—We should be able to give the best estimate we could; and it is the habit of Accountants-General, who draw up estimates, to do so in a way which provides for safety and avoids risks. So it is not unnatural that the actuals should show expenditure less than has been budgetted for.

11,673. Therefore if there is any variation there is no reason to suppose that it would be in a direction unfavourable to the Secretary of State?—The opposite cannot be excluded. For instance, in the case of the present year, quite late in the year the Government of India and the Secretary of State resolved to buy the company's interest in the Delhi-Umballa-Kalka Railway, involving an expenditure of £3,000,000 on 1st April. New and unforeseen charges may occur within a current year.

11,674. But when they did that they no doubt considered the ways and means and how to put the Secretary of State in funds for it. Any estimate made at the time of the Budget is not likely to go wrong as far as the Secretary of State being put in funds is concerned, is it?—It may be quite upset as regards the method of financing—by what may happen in regard to the monsoon in India, and in regard to conditions which may or may not render remittances possible under circumstances which the Government consider advantageous to the taxpayer. That is a very important condition.

11,675. But that is a condition which applies to the whole of the Indian Budget, and not only to the Secretary of State's finance? — The reactions on the Secretary of State's finance are also associated with

reactions on the Government of India's finance, only a further point arises as regards the Secretary of State's finance, namely, the conversion of rupee currency into sterling currency. The Government may be in the position of receiving rupees in India, but may not be in a position to convert the rupee receipts into foreign currency.

11,676. The strain caused by any such extraordinary contingency may be so great that the Budget may have to undergo considerable change?—Undoubtedly.

11,677. But as far as the normal Budget estimates of expenditure are concerned, there is nothing to justify the assumption that the expenditure of the Secretary of State cannot be foreseen with any accuracy for any length of time—the length of time being one year?—I say in paragraph 4 of my memorandum No. 4: "The action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead," and I think that point is fairly well exemplified here if you look at the columns on the right-hand side, which will show you how very different the actual methods of financing the Secretary of State have been in actual fact from what was taken in the Budget. Supposing we look at a year or two. In the year 1921-22 we expected to have to transfer from the reserves nearly £11,000,000. The actual transfer was £2,500,000, showing a very striking difference. If you take the next year, the estimates provided for a transfer through the reserves of £16,000,000. Actually there was no transfer through the reserves. There was no estimate provided in that year for drafts sold in the open market, though actually it was found possible, through unexpected improvements in exchange conditions, to draw practically £5,000,000 in that way. If you take the following year you will see considerable differences in the methods of remitting; and that is the point to which I was drawing attention—that you cannot tell what is going to be done.

11,678. I have got your point. I would then like to ask you whether you think this variation has not been necessitated by the management of the currency which was inevitable in the circumstances prevailing during the period for which you have given us these figures?—That, of course, played an important part in it.

11,679. And similar figures which you may be able to give for the pre-war period may not show such variation as your figures show?—I think you would find even there figures which would frequently show a substantial variation.

11,680. Which could be accounted for by various circumstances such as something unforeseen *re* the Indian monsoon?—Yes, considerations of that sort.

11,681. And of management of exchange?—And capital obligations, and the manner in which it was found expedient to meet them at the time. You have to make entries in a Budget, when you lay down the Budget for purpose of balancing the account, and you frame them to the best of your ability; but you realise that the entries on the capital side are much more liable to variation than entries on the revenue side.

11,682. Have you any instance to put before us where on the capital side you have actually spent considerably more than what was estimated in the Budget? Have you any particular year in view when you estimated for an expenditure, say, of £15,000,000 or £20,000,000, and you had actually to meet an expenditure of £25,000,000? You would not, of course, for that purpose, take into consideration an instance like that which occurred in this year, namely, the purchase of a railway?—That sort of thing has, I think, happened before, when new commitments were incurred, *e.g.*, the purchase of the Indian Midland before the war. That involved a departure from the programme.

11,683 That is, again, the purchase of a railway?—Yes. That sort of thing is apt to happen in the case of India.

11,684. But the payment for the purchase would be decided upon according to the resources available. You would not contract to pay on a certain date unless the Finance Member had the capacity to find the money?—We should have to make arrangements for any special liability if we undertook the commitment.

11,685. You would not incur any special liability unless you could clearly see your way to meeting it?—Certainly.

11,686. Would it therefore be correct to infer that nothing unforeseen has happened in the experience of the last 20 years which prevented the Government of India from pretty approximately estimating the requirements of the Secretary of State?—I have shown in these figures which I have put before you that there have been on occasions considerable variation. The estimates are usually drawn on the cautious side for the reasons I have given, but it is not inconceivable that difficulties may occur and alternative methods of finance have to be sought. One wants to keep a free hand in that sort of matter.

11,687. You would always have a free hand, but there has been nothing to show hitherto that any of your estimates put forward at Budget time have gone considerably wrong, or that the Secretary of State has been put in difficulties?—It is the duty of a Government to see that it is in a position to meet its liabilities, and to arrange, by careful control of expenditure and by suitable provision of resources, not to exceed their obligations, as framed, at the time of the Budget, so far as possible. Speaking broadly, we have been able to keep the expenditure within our totals.

11,688. Therefore, barring the question of exchange, there should not be any valid objection "to attempting to tie up the Secretary of State by an advance monthly programme"?—I suggest that the disadvantage is likely to be to the taxpayers of India because by having to forecast a monthly programme you, to that extent, commit yourself to a forecast of future conditions. It is an exchange point of view.

11,689. I agree. I said barring exchange?—That, of course, is a very important consideration in the case of India.

11,690. I do not at all disagree. I said, barring that, there can be no strong objection to tying the Secretary of State to a monthly or quarterly programme?—I think it might be found inconvenient for the reasons I have given.

11,691. Namely, the exchange considerations?—That is a particular reason.

11,692. Regarding the next sheet, the Home Treasury balances, in the year 1923-24, the interest earned was about £387,000. I make it out, very roughly, that the average works out to a little under $2\frac{1}{2}$ per cent.?—You must remember that the whole of the Secretary of State's balance is not earning interest, because he has to keep a working balance for himself, and, of course, he also has to provide a working balance for the High Commissioner.

11,693. And there is a certain amount which, under the contract with the Bank of England, has to be kept free with the Bank of England?—The Secretary of State keeps a minimum balance on current account.

11,694. Making allowances for all those, interest on surplus balances may work out at about $2\frac{1}{2}$ per cent.?—It would represent whatever was the rate for short money in this country on the amount of the free balance, so to speak, available for investment.

11,695. In that year, 1923-24, for five months of the year the Bank rate in India was between 8 and 9 per cent.?—I have not the figures by me, but I will take it from you it was so.

11,696. What do you think is the disadvantage to the country when the Bank rate there—which means the rate at which the Imperial Bank will advance against Government securities—is as high as 8 and 9 per cent., and such large amounts as those mentioned in your statement, varying between £7,000,000 and £26,000,000, earn interest only at the rate of $2\frac{1}{2}$ per

cent.? That raises questions of policy, two aspects of which I should like to bring to your notice.* The first one is that if you leave large amounts in India, as I gather is suggested, instead of drawing them over to this country under conditions which are favourable, you might find yourself unable to bring those funds over to this country later when you need them urgently owing to a change in exchange conditions. Therefore you would find yourself short of money on this side and full of money on that side, with the result that the expenditure to be financed on this side would have to be provided from other sources, presumably sterling loans, to the disadvantage of the taxpayer of India, since they would not have effected the remittance *ex hypothesi* at times when it could have been favourably achieved. That is the first point. The second point I suggest bears on the proper use of Government deposits by a bank.

11,697. Interrupting you, I just want to say that the Imperial Bank does not come into this discussion at all. I want you to consider only the general taxpayer and the commercial community in India, and have nothing to do with the Imperial Bank at present?—I am considering the position of the money market in India.

11,698. I think that comes in the first consideration which you named?—The first consideration I named was the possibility and the likelihood under such conditions in certain cases of expenditure on behalf of India having to be financed under more extravagant and less advantageous conditions for the people of India. The second consideration to which I would draw atteution is the use of Government balances for the purpose of easing the money situation in India. In this country—I quote from the Chairman's book on "The System of National Finance"—the position is that "Public deposits at the Bank of England lie idle. Neither the Treasury nor any other Government Department, nor the Bank on its behalf, makes any use of them. They are credit which is not available for trade or any other purpose until it is paid out again and released." That is a position which has not applied altogether in India hitherto, and there may be good reasons for not applying such conditions in India; but it does seem to me that the Government deposits, which have to be absolutely available if the Government thinks fit for transfer to the other side, ought to be used with great discretion in the way of easing the money market in India, and that any policy which might lead to the money not being available at once wants to be very carefully considered.

11,699. With regard to the first consideration, can you give us any concrete instance from your experience during the last few years that in a particular year, if the Government had not remitted so largely and had not kept such large balances here, they would have suffered later on? Can you give one or two instances which will bear out the apprehension you have mentioned?—I do not know whether the question is one which I can really answer, because we are judging things in the light of somewhat unusual events. The events of the last few years, under which India has had a series of favourable monsoons on the whole, and under which exchange has been generally rising, are events which do not always ensue; and if you have a condition of things in which that favourable cycle is interrupted, it is clear that that great advantage may be thrown away by delay or omission to effect remittances under conditions which were in fact favourable.

11,700. I do not tie you down to the last three or four years. Take the pre-war years. Consider the question under normal conditions, and select any normal period you like?—In this kind of matter one has to be prepared for departures from the strictly normal. I do not know how far it is reasonable to say that India enjoys normally good monsoons. The occurrence of a bad monsoon has to be regarded as an event which, sometime or other, must occur. It may occur with more or less frequency or with more or less seriousness. All this kind of action is an insurance against an interruption of the favourable cycle of Indian trade. It is clear to me that if you had any set-back at any time the fact that remittances had been effected in advance would be found to the advantage of India.

11,701. Do I understand that the only consideration which the Government of India had in mind in sending such large amounts here, and which caused the Secretary of State to maintain large balances, was the anticipation of a bad monsoon in India?—I should say the object of that was probably twofold—first to safeguard the interests of the Government in the event of any unfavourable situation developing in the ordinary current of Indian trade, and second to avoid, so far as possible, the need for borrowing in sterling, when funds could in practice be provided from India. It has advantage in those two directions, because, as I have said on previous occasions, the habit of the Government, which always has large capital expenditure to incur on this side, is to budget that in the coming year any excess drawings above what is required for immediate purposes should be utilised on this side in reduction of or for the avoidance of fresh debt on this side. So we always budget each year to mop up any surplus fund that may have been drawn in a previous year. The Accountant-General habitually frames his estimates so as to bring his balance down at the end of the forthcoming year to the minimum required for the conduct of business.

11,702. You are unable to give me any figures regarding a particular period that you may have in mind?—Not without looking up the matter. I can only say in these last few years the policy pursued has been of great advantage to India. It is due to this fact that India has been able to get along without further sterling borrowing. It is because we have been able to draw these large funds from India at appropriate seasons that since May, 1923, there has been no sterling borrowing in this country. We have actually been able to frame the Budget for the year 1926-27 on the same assumption, despite the fact that we are buying up this railway, and contemplate, if all goes well, the repayment of the balance of the sterling loan which the Government has the option to repay in the autumn of this year.

11,703. When was the last loan raised here?—In May, 1923.

11,704. Since then you have not found it necessary to borrow any more here?—No new borrowing. Thero have been some renewals of railway bonds, but that is about all.

11,705. (*Chairman.*) As regards your first consideration, let me refer you to the Final Report of the Chamberlain Commission. They say in paragraph 153: "Again, it has been urged that the policy of granting loans in India may interfere with the remittance of Government funds to England at the most favourable rate," and in paragraph 154 the following argument is advanced: "What is in the minds of those who urge this objection is that the grant of loans from the Indian balances will reduce the demand for Council drafts in the busy season when exchange is at its highest, and that, consequently, there will be a loss when the Secretary of State finds that he has to draw money to London at a less favourable season. It appears to us, however, that the effect of such loans cannot be to reduce the aggregate amount of Council drafts sold; at the most, it can result only in a shifting of the sales from one part of the year to another, and it is not clear that, if the exchange in consequence falls at one

* The high balances from June to October, 1923, were largely accounted for by the receipt of the proceeds of the sterling loan of £20,000,000 (nominal) raised in May, 1923.—C. H. K.

time, it will not be correspondingly improved at the other. To a certain extent the number of bills might increase at the expense of telegraphic transfers, since the first are used more largely in the slack, and the second in the busy season; but against any slight loss caused in this way would have to be set the interest earned in the meantime on the Indian loans." What would be your view upon that argument in relation to this point?—It appears to me that if there is a credit in favour of India, that credit must be discharged at some time or other, and it may be urged that if it is not discharged at one point it must be discharged at another point later on; but that postulates that the credit will be continued, whereas if you have a setback in trade conditions, that credit may be wiped out by a temporary debit, and, having failed to remit at one particular time, you might not be able to remit as satisfactorily at the later time.

11,706. Is it not the case that if you integrate the effects over a sufficient period of time they must work out the same?—Taking a long period, that would be so; but the position of Government as remitting at one time and at another would probably never come out exactly the same, because you use a considerable discretion in the date when you remit, and you select a date which is convenient and advantageous to you. Over a prolonged period the credit balance which has to be adjusted in India must be the same, but the part which Government operations may play in that adjustment would not necessarily be the same according to the periods at which it chose to effect its drawings.

11,707. (*Sir Henry Strakosch.*) In effect the holding of a balance by the Secretary of State in London adds to the reserves to secure the external value of the rupee. It is in effect an addition to the currency reserves to maintain stable exchange?—Yes, it acts in that way.

11,708. It was suggested that the Indian money rate in the year 1923 was between 8 and 9 per cent., and that was compared with the day money rate in London. Those two rates are not comparable, are they? The 8 per cent. rate, I take it, is a long money rate, whereas whatever the English rate may have been—2½ per cent.—was a short money rate?—The English rate was a short money rate. I believe it is the case that the rate for short money in India may differ substantially from the Bank's published discount rate. I believe something of the sort is happening at the present time.

11,709. (*Sir Purshotamdas Thakurdas.*) By way of information, Sir Henry Strakosch might like to know that when money is tight the rate for day to day call loans does not rule much lower than 1 per cent. below the Imperial Bank rate.

11,710. (*Sir Reginald Mant.*) You mentioned just now certain reasons for the large balances of the Secretary of State. Is it not a fact that in recent years, or at any rate in recent months, the Secretary of State has been compelled to sell Council bills or to purchase sterling practically to an unlimited extent, because it is the only means by which Indian currency can be obtained?—Yes. In so far as there is no opportunity for Banks to obtain fresh currency by the importation of gold under present conditions, it has been necessary for Government, if the exchange was not to rise to the present anomalous statutory rating, that remittances on a heavy scale should be conducted, with the result that the home balances have been thereby increased.

11,711. Then the Secretary of State has not really a free hand in the matter?—Not unless he chose to stand aside altogether and permit the exchange to rise to the statutory ratio of 2s.

11,712. (*Sir Purshotamdas Thakurdas.*) That would not happen if the Statutory ratio was not an ineffective one of 2s. to the rupee?—Then there would be the alternative means of getting currency by the importation of specie.

11,713. (*Professor Coyajee.*) How does the money market organisation of London compare with that of India as regards facilities for recalling large sums lent out on call?—I should imagine the facilities for employing short money with a view to recall promptly without disturbance are enormously greater in London than they are in India under present conditions.

11,714. (*Chairman.*) Now we pass on to memorandum No. 5, which deals with the subject of remittances. This subject has already been fairly well ventilated in the course of our examinations. In the first place let me put to you a general question. Assuming the foundation of a true central bank, what real responsibility would you be prepared to recommend should be entrusted to that bank in the conduct of the business of remittances for the Government?—My suggestion is that the Government's market remittances should be effected by open competitive tender, and that in settling the amount of rupee exchange to be offered from time to time the advisers of Government should act in close concert with the authorities of the central bank, through whose agency the actual machinery of remittance would be conducted. The procedure would be that the central bank would notify that it would receive tenders for rupee exchange on such-and-such a day up to such-and-such an amount. The tenders would come in, be considered, and either accepted or rejected, or be accepted in part and be rejected in part. Having disposed of the tenders received, the authorities would be gathered together round the table and they would say, "Now, we will deal with the settlement of the amount to be offered on the subsequent occasion," and the amount would be settled in concert between them, after weighing up the exchange position and prospects, the need of the Home Treasury for replenishment of its resources, and any other considerations that might appear relevant.

11,715. Assuming, again, that under these conditions the responsibility for the maintenance of exchange is the central bank's, do you or do you not see anything prejudicial to the effective discharge of that responsibility by the bank if the method of conducting a large part of the exchange business is defined in the manner in which you have described?—I suggest that, just as it was found possible under pre-war conditions to regulate remittances in harmony with the requirements of exchange, there should be no difficulty whatever in practice against the authorities of the central bank and the Government regulating the two sets of factors suitably and without prejudice to the interests of one party or the other, whose interests would, in the long run, be identical.

11,716. Your proposal, then, as I apprehend it, would involve that there should be a segregation between the exchange business conducted by the Bank on behalf of the Government and any other exchange business conducted by the Bank; that all transactions done for the purpose of Government remittance should be made specifically for that purpose, and that there should be a publication of the actual transactions effected from day to day or from week to week as the transactions are made?—Yes. I feel that the part played by the Government operations as affecting the course of exchange is so great in the case of the Indian exchange as to entitle the Indian business community to know exactly what is happening as regards those transactions, and that the information given to the Indian business community should be as full and as prompt as is consistent with the interests of the Indian taxpayer.

11,717. When you say that the time of the remittance and the amount on each occasion, or during each period, should be decided in consultation between the authorities of the Bank and some representative of the Government, what representative of the Government have you in mind there?—The

actual representative of the Government would depend on whether the operation of a competitive tender was taking place in India or on this side. If it was in India it would be a representative of the Government of India. If it was on this side it would be a representative of the Secretary of State.

11,718. When you say "consultation," with whom do you contemplate that the ultimate responsibility should be in case of difference of opinion?—I should hope that such a difference of opinion would always be resolved round the table without difficulty. Should the Secretary of State or the Government of India not be prepared on a particular occasion to defer to the advice of the Central Bank, then I think the Secretary of State or the Government of India, as the case might be, would be entitled to say to the Central Bank that they wished a certain amount of their rupee resources converted into sterling, and would request the Bank—their agents for the custody of those balances—to take the appropriate steps, as would be the case, I take it, with an ordinary depositor with a bank. My contention has rather been to reserve for the Government in principle the same liberty of action as is granted in the case of any depositor, though I qualify it by recognising the fact that the Government must act in consultation with the authority of the Central Bank, seeing that the Government's operations have a close connection with the efficient discharge of its duty by the Central Bank.

11,719. Will you explain further on this why the operations conducted on behalf of what you describe as a customer of the bank should have a greater degree of publicity attached to them than the operations conducted by the Bank on behalf of any other customer?—The argument for that is given in paragraph 7 of the memorandum.

11,720. You say there that "These considerations give those engaged in Indian trade a claim to know the action that Government is taking in regard to exchange operations, much in the same way as the business community in the United Kingdom are given immediate information regarding movements of gold to and from the Bank of England". I do not quite see the closeness of the analogy. I should have thought the analogy was rather with the operations of the Bank of England for laying down dollars in New York. No information is given, as we know, about those?—The position of the Government's operations in regard to the rupee exchange bulks much more largely in the total volume of exchange operations between India and London than the British Government's operations in the dollar sterling exchange bulk in the exchange transactions between this country and the United States of America. One can see that pretty clearly from the fact that the Government's obligations on this side, including capital which may be met by remittance from India, as they have been in recent years, are somewhere in the neighbourhood of 40 million sterling, which in itself is a larger figure than the yearly interest on the American debt. Thus it seems to me that trade is entitled to know what the Government's intentions and actions are so that it can make its own plans and form its own view. If the Government is not operating in an open manner then, as has happened on occasions in the past, trade may be taken by surprise, with serious consequences to legitimate business.

11,721. May it not be said that there is a difference between publishing information as regards the actual exchange operations of the Bank and publishing information as regards the state of an item in the Indian National accounts, e.g. as to the places in which the assets of the Government are located from time to time? May it not be said that it is quite natural that the Government should publish periodical statements as to where its balances are held, but that there is a difficulty to find a precedent for publishing information on Indian operations from day to day or week to week?—It is difficult to find any precedent. The exceptional character of the Indian Government's exchange operations with regard to the total volume of exchange transactions between the two centres is itself without precedent, and experience has shown that the publicity and prompt announcements of intentions and actions has been extremely satisfactory in the past, avoiding undesirable speculation as to what the Government's intentions and actions are. The open competition which in itself is a part of this publicity has itself proved extraordinary beneficial from the point of view of rates obtained for remittance. I suggest another analogy which is somewhat different and which is worth mentioning in this case. When the British Government requires to raise funds on Treasury Bills week by week, they do not say to some agent in the City, "See what are the best terms on which you can place X pounds worth of Treasury Bills", but they invite competitive tenders at the Bank of England, accepting or rejecting, as circumstances indicate. In that matter they go in for publicity and competition.

11,722. I see no closer analogy than that in each case the Government publishes certain information about its operations?—The point there is that they invite competition for their Treasury Bills just as we invite competition for our rupee exchange. The analogy I am trying to draw is the element of open competition. That is the reason for which I cite that analogy.

11,723. The public attention and occasional suspicion attached to Government's operations in remittance business has been intimately connected, has it not, with the circumstance that it was the Government which was responsible for the maintenance of exchange at a certain rate? The assumption is that we have a central bank which has become responsible for the maintenance of exchange. With that alteration is not the case for publishing information of Government's exchange requirements and operations deprived of a good deal of its weight?—It has an important bearing on it.

11,724. To amplify that, may I say this; no doubt it is a point which you have already taken. Under those conditions there is no longer any motive on the part of the Government to operate on the market to affect exchange. It is simply providing its normal requirements from a business point of view. Therefore its operations would lose all interest to the general public?—The normal requirement is itself, as we have seen in these papers, not a figure that can be absolutely defined, varying very much from year to year; and the interests of trade I think, in knowing the extent to which the Government has transferred funds from one side to the other as being a potential influence on the exchange, will still persist, whether the operations are carried out by a central bank or by the Government.

11,725. But what interest will it have from that point of view? How could it affect exchange when the limits of the possible movements of exchange are defined by the responsibility entrusted to the Central Bank?—The point would be that trade attaches importance even to a 32nd, and the possible range of exchange fluctuations within the gold points is something in the neighbourhood of 13/32nds or thereabouts; and if Government is operating when exchange is between the two points, it is a very important matter for trade to know what it is doing. When exchange has been, as recently, at the equivalent of an upper gold point then it is not of so much importance, but when exchange is fluctuating between the gold points then I think the interests of trade in the future will be much the same as the interests of trade were in the past.

11,726. Nevertheless it might perhaps be recognised that the limitation of the possible variation of exchange within these maxima and minima would very much reduce the general public interest as to the possible consequences of the proceedings of the

Government in the exchange market?—Yes. You realise that before 1914 the declared policy of the Government was to confine the movements of exchange between what were the gold points on the basis of 1s. 4d. rupee. We had that position before the Government and before the public of India in those days also, and yet their interest in the day-to-day movement of exchange and the fluctuations within the gold points was intense. I suggest that situation is likely to continue when you have made new gold points as regards the fluctuations between them.

11,727. That was under pre-war conditions. Owing to the recognised absence of any absolute obligation to sell reverses, there was always looming the possibility that the exchange might drift away even from its long-established rate.—That is a new factor to which appropriate weight must be given, but we still have a recognised range of fluctuation to reckon with.

11,728. When you speak of transacting business by public tender, I understand you are contemplating two possibilities: either tender in London or tender in India?—I do not see why either alternative should be formally excluded.

11,729. In paragraph 9 you say: "Sales in India involve the correlation of demands from various centres remote from each other and the headquarters of Government." We have had it in evidence that in fact the time which elapses between the putting in of the tender on publication and the results in India would be less than in the case of tenders in London. At present the exchange banks, in order to put in their tenders in London, have to cable early on the morning of the day fixed for the sale and they do not hear the result until next morning. If the tenders were in India they could be in at one o'clock on the day of tender, while results could be published the next morning before business commenced. Do you see any practical difficulty in getting a system of public tender in India?—Two points are mentioned in the memorandum as being important. In the case of this country tenders are put in and the announcement given, as a rule, within a quarter of an hour from the time of the receipt of the tender. The arrangement apparently suited the parties concerned for a period going into some generations. It seemed to give complete satisfaction to the parties concerned. It is certainly more convenient, I think, to deal with tenders which, from the conditions under which they are submitted, are put in at one centre and disposed of with immediate promptness. There is the other advantage which I see, namely, that in the case of transactions in Government exchange in large amounts it is desirable that the Government should receive payment before it issues the local currency.

11,730. That is another point. I was dealing with it at the moment on the question of time?—I can only say on that that there is extraordinary promptness in the disposal of tenders in this market. The operation takes about a quarter of an hour from the receipt of tenders to the announcements of the results. History shows that the system gave satisfaction to the principal interests concerned for an enormous length of time, and that the policy was not challenged by the Reports of the last two Commissions which have dealt with the question of Indian currency and exchange.

11,731. I rather gather that you are not prepared to express an opinion that there is anything in Indian banking conditions which makes it impracticable from the business point of view to conduct a system of public tenders in India?—No. All I can say is that it is conceded that in the case of India you must make arrangements to bring together tenders from different centres, and it seems to be likely that as conditions develop, demands will arise for the extension of the number of those centres, which will itself make the arrangement more complicated and more cumbrous; whereas with a system of tenders in London, where the head offices of the principal institutions concerned are situated, the extension of the number of places where rupee currency will be available involves no complication in machinery, because under present procedure successful tenderers can get their drafts on any of the approved centres, which can be added to without inconvenience from time to time.

11,732. As regards the further contention which has been advanced, to the effect that the commercial transactions on which remittance operations depend arise in India, that most of the tenders for Council Bills are originally sent from the exchange banks in India to their head offices in London, and that the head offices in London merely send them to the Bank of England: what would be your opinion on the contention that that is an argument in favour of the convenience of receiving tenders in India?—The position being as it is as regards time, the Indian branches of the exchange banks can make any necessary communication at the close of the Indian business day, which can be received at the head office of the exchange banks the first thing the following morning, and they can act upon it and co-ordinate it with any other demands from other centres in the East with which they may be concerned. I do not think there is anything in the point, which of course is true so far as it goes as a statement of fact. The head offices of the banks act largely on the reports and requirements of the local branches, but I am not in a position to say that as head offices they do not exercise the final rights of decision. I do not think there is anything in the point which makes the machinery of tenders in London in any way cumbersome or complicated. Obviously in matters of this class there would always have to be close contact between the head offices of the exchange banks and their local branches.

11,733. Again, in paragraph 9, you say "further, in the case of Council sales in London, rupees are not issued until the Secretary of State in Council has been paid in sterling. In the case of purchases of sterling in India, the rupees are credited before the sterling has been paid over to Government. It is therefore necessary to discriminate in such purchases, and the area of competition is thus not so wide as in London, where drafts are open to tender by all without distinction." That might be looked upon as a theoretical disadvantage; but in actual experience has it been found that the list of those with whom business of this nature is transacted in India is in any sense more limited than a similar list in London?—I think in practice the procedure in India which confines the transactions to the large exchange banks and very few firms—one or two other firms probably—does exclude from tendering possible people who might tender in this country. Without looking up the records I cannot give you an exhaustive list of the tenderers, but I can think of one or two instances of firms which have tendered in the past and would be cut out from tendering by the restriction which it is necessary to impose if the Government are to pay before they receive.

11,734. In a footnote to that paragraph you say: "It is worth mentioning that sales of sterling by the Exchange Banks in India, as hitherto conducted, are understood normally, or at any rate on occasions, to involve the payment of a commission by the seller to a broker." Is that as a matter of fact the case? —I put that footnote in on what was told to me by a representative exchange banker—that it is a fact that on occasions a broker acts as intermediary between the selling bank—that is the bank selling sterling—and the Imperial Bank acting on behalf of the Government; but if the statement is incorrect I should be very glad to know it, because I have been definitely told it. There are gentlemen here who will know absolutely whether it is the case, but I put it in on definite information given to me by a very well known Indian exchange banker.

11,735. I think the best opinion on that subject can come from the members of the Commission?—

Yes, I think that is so. May I make one remark on this. When I was told this fact, what was said to me also was that an exchange broker might understand that there was a certain amount of sterling to be acquired by Government at a certain rate, and that the allocation of that amount as between the exchange banks was to some extent within the discretion of the exchange broker who might go first to one bank or to another as the case might be and dispose of his exchange; the next instalment might be perhaps at less favourable rates. It was put to me that this arrangement did not always act with impartiality as between the banks, seeing that it invested the exchange broker with a certain amount of discretion in the way of disposing of the business.

11,736. That indicates an argument in favour of a system of public tendering instead of that of private purchase?—That is so.

11,737. (*Sir Purshotamdas Thakurdas.*) I should like to ask a question regarding this distinction to which you refer in paragraph 9. Would there be any objection, when sterling is purchased in India, to the Government's stipulating that rupees would not be paid, to tenderers not on the Government's list, until after the receipt of sterling in London?—I think that would be a complicated transaction. It would mean that an arrangement would have to be made in India first, and then telegraphic communication here, and then a further telegraphic communication to indicate that sterling had been received. It would introduce a further piece of machinery into the scheme.

11,738. It would bring in all who were not on the Government list, and to that extent would enable everybody to tender in India?—It would have that advantage at the cost of the additional complication.

11,739. Those who do not have the privilege of being on the Government list might be given that option. It would certainly prevent their being cut out?—I think it is desirable to have uniformity in these matters. It might be represented as involving a distinction between those whom Government trusts more and those whom the Government trusts less, and there may always be a question to be decided as to whether people were good enough to go on to the Government list or not.

11,740. Which do you think would suit the public better—being unable to tender at all, or being able to tender with one additional condition?—I dare say some might prefer that. I do not think it would be a happy or convenient arrangement for the authorities who had to work it. They would be subjected to very awkward questions.

11,741. (*Sir Reginald Mant.*) I understood you to recommend that remittances on behalf of Government should be made by the bank by public tender?—That public tender should be received at the bank for the habitual weekly remittances. I did not touch on the question of intermediate remittances, because that question has not been raised, but I do contemplate that there would necessarily be some arrangement for intermediate remittances on the sort of lines we have been familiar with in the past.

11,742. I want to be quite clear what your scheme is. Would it be compulsory on the bank to make all remittances on behalf of Government either by tender or by intermediates at a rate to be agreed upon with Government; or what would the arrangement be?—The arrangement would be that assuming we had a weekly system of drafts (though it is open to question whether on occasions you would not like to have a bi-weekly system, two sales a week) that after the weekly sale the bank would announce that it was prepared to sell X Lakhs at an approved rate, and if there were demands for that additional amount of remittance they would deal with it, and they would then announce a further amount if they thought desirable. Every stage would be open. Broadly speaking, this would follow lines which appeared to have met the trade convenience and the Government convenience in the past. When exchange got to the upper gold point the banks' operations would be according to the demand of the public. As far as the Bank's own business was concerned, they would, of course, conduct their own operations with which we would not be concerned.

11,743. We are evisaging a system under which a bank would have undertaken the responsibility of meeting the requirements of Government on this side. Would it not unduly tie the hands of the bank if you were to require it to make all remittances on behalf of the Government in the way you have described? Supposing the bank had large sterling resources on this side and the Government wanted a large remittance, it might suit the bank to make over sterling, say, from the currency reserve making a corresponding contraction in India without calling for tenders. Why should not the bank be at liberty to carry out the transaction in that way?—I do not think you could exclude transactions being carried out in that way. That would in effect represent a sale of exchange to Government by the reserve, there being a corresponding adjustment in the reserve in India which would be immediately announced in the following Note issue return. That is an operation which would particularly come into effect at times when exchange was not such as to enable you to make remittances in the open market. Presumably that operation would take place when exchange was weak and Government was not able to sell drafts advantageously, and an operation of currency contraction was being carried out—if I follow your meaning correctly.

11,744. You talk of the Government selling drafts?—I meant the bank selling drafts on behalf of Government. When it might not be convenient for the Government to effect remittances in the open market, the operation might be effected by currency contraction in India against the release of sterling on this side, if I understood you rightly.

11,745. The bank might conceivably offer the Government a beter rate than it could get by selling drafts. Is not that a conceivable position? Supposing the bank offered to make over sterling to Government at the upper gold point, would not it be to the advantage of Government to accept the rate?—Assuming that Government could not sell in the open market at the upper gold point. If it could sell in the market at the upper gold point I take it there would be no financial gain or loss either way if that was the rate.

11,746. You cannot always tell, when you invite tenders, what rate you will get, and if you could get the top rate without a tender why resort to tender?—I suggest that the bank would not be likely to offer sterling to Government at that rate unless it could see its way to replacing the sterling by the sale of exchange in India on at least as favourable terms. It seems to me the operation you are suggesting is much more likely to come into evidence when exchange is weak and Government wishes to stand out of the market, and it suits the bank to contract the currency in India.

11,747. Would not it meet the case if you empowered the Government to require the bank to call for tenders if the bank could not otherwise offer a rate which was satisfactory to Government?—I suggest that the only satisfactory way of testing the market and ascertaining the rate is by inviting competitive tenders, and it is not possible to form a decisive opinion as to whether any rate offered by an individual is the best rate obtainable except by testing the market, and that in the long run you would not be likely to gain from proceeding privately because the bank would not be able to afford to offer an alternative rate unless it felt secure of covering itself by replacing, say, the sterling sold to you at as good a rate.

11,748. But supposing the two parties concerned—the Government and the bank—agreed on a particular rate, it seems to me rather peculiar to

force them, as I presume you would, by rule, to invite tenders on the market?—I think your position would be that you have these large rupee deposits in India which you want, somehow or other, to translate into sterling, and if it suited you, you would ask the bank to invite tenders. If, on the other hand, the position was such as to indicate an unfavourable market situation for the purpose, you could not rule out the possibility, in these conditions of the bank contracting the currency in India against a release of sterling in London. I do not think that could be left out by any means; it must be taken into account. My contention has been that in so far as the Government remittances are effected by sales of rupee exchange to the market, those operations should be by public tender and should not be by private and undisclosed operations. In this statement we are only dealing with the question of private versus open competition in regard to open market operations.

11,749. Then you would not rule out such transactions as I have suggested?—Certainly not. That must be left in. It is essential that that method* should be preserved for use on appropriate occasions.

11,750. (*Sir Henry Strakosch.*) With reference to the remittance of Government funds to this country through a central bank, you said that close co-operation of the Government with the central bank would be necessary to determine the amount of remittances and the time at which they should be made; and you further went on to say that in case of a difference of opinion the wish of the Government should prevail. If the Government insisted upon remitting funds to England, and the bank felt that the exchange market was not in a position, without a depression of the exchange, to stand such a transaction, would not the effect be this: If in fact the bank was right in its opinion about the exchange market, then if remittances in excess of the capacity, were made, the effect would be to deplete the currency reserves in the bank?—My contention in this matter is that just as the bank must pay due regard to the interests of Government so the Government must pay due regard to the interests of the bank, and I cannot envisage the situation, seeing that the Government's credit as well as the bank's credit is involved in maintaining the rupee exchange (as laid down in an Act of the Indian Legislature) that such a conflict will in practice not always be resolved satisfactorily round the table. After all, there can be no question that a depletion of sterling reserves is not a thing that occurs in one night. We are dealing now with a particular decision whether or not a certain amount of remittance should be drawn from India or not. If the tender is unsatisfactory the Government does not pledge itself to accept the tender. It would have the opportunity of considering the matter on receipt of the tender. If it accepted the tender on one occasion it would have seen the effects of a comparatively small remittance on the Indian exchange market, and seen how it stood it. There would always be an opportunity from day to day to reconsider the position. There is no likelihood of any failure on the part of the Government to respond to the dictates of the Indian money market as these become clear, and they would become clear very quickly.

11,751. Supposing there is a difference of opinion and the Government does take up the line that remittances should be made, would not that lead to the bank immediately applying the orthodox measures of contracting by increasing its bank rate? I am trying to get to a point which we discussed at the last meeting, and that is the Government's right to give instructions to the bank; I put this to you. If such a contingency were to arise, and the bank felt in order to preserve its currency reserve it had to put up the bank rate, what would be the effect if the Government then stepped in and said: "I give you instructions not to raise the bank rate"? Does not that lead to an impossible position?—Yes; it would be an impossible position if the Government behaved in such a silly way, which I suggest they are not likely to do. I suggest that in practice the Government of India is likely always to be on the side of caution in these matters.

11,752. The point I really want to get at is this. Do you still think that a right of veto, or a right of giving instructions under a true central banking system is justifiable?—I should like to go as far as is reasonably possible in trusting the bank authorities with powers to deal with central banking business. Therefore I should certainly regard it as an ideal to be aimed at that the Government should be able to give up any right of stepping in, such as is indicated by phrases like "suspensory veto," or "right of giving intructions" with regard to affairs affecting purely the banking business, provided that the constitution of the bank gave the maximum scope, consistent with the independence of the bank, to Government influence being exerted; that is to say, by the appointment of the Governor and the Deputy Governor, and by the nomination of Government representatives to the Board. I take it that in such a case the weight of the Governor or Deputy Governor would probably be so great as to carry the Board with him. In the event of the Governor or Deputy Governor not being able to carry the Board with him, I suppose in an extreme case he would say he could not carry on, or he would appeal to the Government, who would have to bring the matter before the Legislature in some form or another to see that his position was secured, in the event of their being satisfied that the Governor's position was not sufficiently strong. Having that in view, I think on further consideration that if you can create a genuine central bank in India, it would probably be better to incur what I should regard as some risk in not giving the Government an absolute power of final control in the higher policy of the bank in regard to exchange and currency. I do not, as you will have gathered from my earlier evidence, hold that that should preclude the Government from action in regard to its own deposits, in which respect it is in the position of a customer, and the most important customer of the bank. They would, of course, in such a matter be open to the influence and guidance of the bank just as, I take it, the bank will on the basis we have now been discussing be open to the influence and suggestions of the Government representatives on the Board of the bank. Just as the bank would harmonise its policy with the interests of the Government so far as it was consistent and legitimate, so the Government would harmonise its policy with the interests of the bank. I take it that central banks, with their peculiar relation to Government, have in the last resort to pay regard to the wishes of Government as a matter of practice. That seems to be the general experience of central banks, as far as I understand it.

11,753. One other point. With regard to the place where tenders should be called for for selling remittances. You advocate that tenders should be opened in London only, or you have a preference for that?—I have given two reasons there which seem to me to indicate convenience and advantage in open competition in London; but I would not go so far as to rule out in any formal way the right of making remittances on the other side, if that seems at any time desirable. I do not see any reason why Government should be put under any restriction on that matter to decide where the remittances are effected.

11,754. But in the ordinary course, I take it, it would do its remittance business as it would do all its banking business through the central bank?—Yes.

* Sales by the Bank of sterling held in the note reserve against corresponding contraction in India. C.H.K.

11,755. Therefore, I take it, it would have to be left largely to the discretion of the central bank how best to acquire sterling?—That is so.

11,756. Is not it rather a question of convenience? Where is the biggest market for sterling exchange? Is it in India or is it in London, and would it not be desirable to concentrate, as far as possible, all exchange transactions in one place?—I think that would be generally so.

11,757. Well, if there are, as no doubt there are, a very large number of transactions in sterling exchange in India, is it not for that reason preferable to concentrate the market in India rather than to spread it to London so far as Government remittances are concerned, and to India so far as the remittances to the community are concerned, which are far greater than the Government remittances?—I speak under correction here, but I am under the impression that it has been recognised that London is the biggest single centre for dealing in rupees.

11,758. Is not that contradicted by the fact that during the last two years, I think, the bulk of the sterling transactions of the Government were carried through in India without inconvenience, and without any detriment to the Exchequer?—The actual contract has been offected in India, but my recollection is that on some occasion the Government of India have themselves stated that London is the biggest single centre for dealings in rupees. I might be able to turn up that reference if I were given a couple of minutes to do it, and it might be of interest to the Commission.

11,759. I am rather struck with the idea that the market should be where it will give the greatest amount of confidence to the trading community of the country.—Yes.

11,760. If that is taken as a basis for decision, it seems to me pretty clear that it causes less disturbance if the tenders were opened in India and the exchange banks were to send out their cables from London rather than force the Indian commercial community to send over their cables to London. I only suggest that the long experience we have had of council drafts sold in London without any complaint carries pretty well with it the implication that the arrangement was extremely well suited to the needs of the principal customers, *i.e.*, the exchange banks and large firms trading with the East. The fact that for generations London was accepted without any question as the most convenient centre seems to me to indicate that London was the right centre.

11,761. But has not the external trade of India increased by leaps and bounds during the last few years, and has not therefore, the proportion of Government remittances become relatively smaller and smaller from year to year?—I very much doubt that, and for this reason. In the old days the Government habitually borrowed in London for its sterling capital expenditure. I suggest that we might find on examination if we were to look back 20 years, that the amount of remittances from India to London for Government were more in the neighbourhood of 25 to 24 millions a year as compared with present 46 millions, I think, this year; a fact which shows, I think, that the extent of the Government demands for remittances has fully kept pace with the capacity of India to supply those funds for Indian purposes by reason of an increased volume of trade. In fact the two will be seen on analysis to be closely connected in essence.

11,762. (*Sir Maneckji Dadabhoy.*) How do you enforce this right of veto in the case of difference of opinion between the bank and the Government?—Well, on consideration I have suggested, in reply to Sir Henry, that if you can get a genuine central bank started, it would be desirable to entrust it with the maximum reponsibility possible, and that I would rely on the influence of the Governor and the Government representatives to safeguard the interests of the Government. I feel that the other method would bring with it disadvantages which perhaps would more than outweigh the advantages.

11,763. You see the difficulties?—I see that it would militate so much against the independence of the bank that on the whole I think one should try and get on with it. If any disaster threatened one would have to consider the position. That is what it really amounts to, but I should hope that never would arise.

11,764. At the end of your paragraph 9 of your memorandum you recommend a discrimination between the Council's funds in London and sterling purchase in India.—Perhaps the meaning of that phrase is not clear. I do not recommend discrimination. What I say is that at present, as the Government issues rupees before it receives sterling, the Government in fact has to discriminate in regard to the firms with which it will deal, only dealing with such firms as are so absolutely beyond question that it can pay them before they are paid. There is actually at present discrimination. What I am anxious to do is to avoid any need for discrimination.

11,765. But in the preceeding sentence you contrast the difference between the two?—Yes.

11,766. May I ask what is the interval which generally elapses between the times when rupees are credited and sterling is paid over to the Government?—Under present conditions I do not think it is a matter as a rule of beyond about three days at most though there have been occasions when owing to the coming of the holidays the period has been slightly longer. We have taken the view, I think, up to date that there should not be any prolonged interval, and it has been carefully watched that the interval should not be longer than a matter of a few days, but it may go to two or three days.

11,767. Is not the loss to the taxpayor a real one, in that case?—There might be a slight loss to the taxpayer in so far as the delay in receipt of the sterling means a little delay in the time in which we can invest the proceeds here and begin to earn interest on it. That was not the consideration primarily emphasised, but it is a point.

11,768. That is a point, but that was not really the point you had in contemplation?—I was not addressing myself to that point, but now you mention it, the sooner Government gets paid the quicker does it begin to earn interest on any surplus funds that it may have temporarily.

11,769. (*Sir Alexander Murray.*) I think in reply to the Chairman you indicated that some exchange banker had complained about the intervention of a broker between him and the bank as far as sterling purchases were concerned?—He represented to me, as a matter of fact, that on occasions there was a broker intervening who might have a certain amount of discretion in the way of disposing of the business. He made this observation to me, not in the way of official complaint, but as a comment.

11,770. Who pays the broker?—I suppose the seller of sterling pays the broker in the first instance.

11,771. Namely, the exchange bank?—The exchange bank, I understand.

11,772. The exchange bank employs a broker and therefore adds to the cost of the transaction as far as the exchange bank is concerned?—I take it that is so.

11,773. It is the case that many banks buy direct from the Imperial Bank?—I believe that is so.

11,774. Without the intervention of a broker?—I believe so.

11,775. Therefore the natural assumption is if any individual banker brings in a broker and thereby adds to the cost of his transaction, he is doing it for purposes of his own?—The suggestion as put to me was that the broker somehow was aware that there was a certain amount of business to be done in this behalf, and he proceeded to sound possible customers as to whether they would be

prepared to deal, and in the exercise of his discretion as to whom he should approach first the possible customers were not absolutely all on a footing. That is how the point was put to me.

11,776. Do you know actually how the business is done in Calcutta?—I have heard a certain amount about it from the parties concerned.

11,777. May I put it to you in this way? When the Controller of Currency wishes to buy sterling in Calcutta he advises the Imperial Bank that he is a buyer at a certain rate, say, 1s. 6$\frac{3}{16}$d., and the bank then announces the fact generally, and every bank and every broker in Calcutta knows when the Imperial Bank on behalf of the Controller of Currency is a purchaser. If one of the bankers chooses to employ a broker to put through the transaction for him, that banker, for his own purposes, has added to the cost of the transaction to himself, and I suggest to you any banker who employs a broker does it for purposes of his own, not because it is necessary. You can take it from me it is the case that banks deal direct with the Imperial Bank in these transactions.—I fully accept what you say, but is it not the case that if it is made generally known somebody may hear of it earlier than another person, and so get in first, whereas, under the former system of competition the amount is allocated proportionately between all possible claims. I do not know whether there is the same opportunity for everybody to get an innings under the one system as under the other.

11,778. Under the system in Calcutta if there is a demand larger than the amount that the Imperial Bank has orders to buy, the bank refers the matter to the Controller of Currency, and it lies with the Controller of Currency to say what tenders are to be accepted, so that, so to speak, in effect it is really a tender system that is now existing if the demand exceeds the amount they originally proposed to purchase?—Then when the rate is not at the top point, as it has been for some time recently, there have been occasions when a quarter of a million has been available at one rate and the next quarter of a million at an advanced rate. In such a case as that the parties that might apply quickly for the first lot might come off better than those who came in later, therefore there is some element of uncertainty connected with the time when you may hear the offer.

11,779. But it is open to any banker to say to the Imperial Bank in Calcutta: "When you have got sterling to buy I am your man if you want business"?—Yes.

11,780. Therefore that man is protected right through because immediately the Secretary and Treasurer of the Imperial Bank would advise that man: "Look here, I am a buyer of sterling, are you a seller?"?—Yes.

11,781. I suggest to you there is absolutely no foundation for the complaint that brokers have to intervene between the Government and the exchange banks. If an exchange banker chooses to employ a broker and thereby incurs extra cost, it is done for the purposes of the exchange banker only?—I am much obliged for your telling me that. You see, I only regarded the point as worthy of a footnote, and not one to which I attached any great significance.

11,782. (*Mr. Preston.*) With regard to your answers to questions in connection with public tenders London *versus* India, having regard to the fact that the majority of the head offices of the exchange banks operating in India are outside India, has it ever occurred to you that the statements which are frequently made that London or the head offices of the banks wait and act only on telegrams for Council requirements, for their India offices are more of a myth than a reality, seeing that the administration of a big bank is carried on from its head office, and not from one separate unit, whether it is in India, China, or the Straits, or in other places and other spheres of the Far East?—I have always understood that the head offices of the exchange banks in London keep a very close eye on the transactions of every individual branch elsewhere, and I have always suspected that one of the advantages of the London system was that it enabled the head offices of the bank to regulate the business of all their branches with proper co-ordination and sequence.

11,783. Which would be, in effect, that the head office here would operate entirely in rupees, in so far as its tender went, on its own responsibility?—Absolutely.

11,784. (*Chairman.*) There is one subsidiary question which I want to ask you. On the assumption that there is to be a true central bank with a London office, it being a characteristic function of central banking to manage the public debt of that country in which it is instituted, would you have any recommendation to make as to any alteration in the arrangements for the management of the Indian sterling debt under these conditions?—I think there are great advantages in maintaining close relations with the Bank of England, and one would have to consider the statutory provisions affecting that matter. At present the Secretary of State is under the statutory obligation to maintain the register of the sterling loans at the offices of the Secretary of State, or at the Bank of England, and in practice they are, of course, maintained at the Bank of England which manages the debt and deals with transfers and issues interest warrants. It is quite clear that no one would think of managing that kind of work at the office of the Secretary of State when the Bank of England is provided by Statute as the alternative institution. Whether when a genuine central bank is established it would be desirable to transfer that work to that bank is, I think, a matter which would need to be considered in its due time at the termination of the present arrangement with the Bank of England.

11,785. When would the present arrangement terminate?—I think it is in about three or four years' time. It is not a long term contract.

11,786. The opinion that you would express is that this question should be postponed until the end of the present contract?—I should leave that question open till the termination of the present arrangement, and then I should see whether the Central Bank had got an appropriate office and had appropriate facilities for dealing with that matter. In that connection I should, of course, have to consider the general question, which would then have to come up, of transferring the Government account in its entirety to the Indian Central Bank. I should want to go into that question and discuss it with people who were capable of giving advice on the matter. The expediency or otherwise of such a transaction would clearly depend on the way in which the Central Bank had developed and was functioning.

11,787. The Government account to which you are referring is the account in respect of the Secretary of State's London balances?—That is so.

11,788. As regards that, do I understand that it is your opinion also that that should be postponed for consideration at the same time as the consideration of the question of the transfer of management of the Sterling Debt?—Yes; I should not be disposed to make any change in regard to that matter until the Central Bank had been established and had thoroughly justified its conduct of important Government business.

11,789. On a minor matter, it has been pointed out to us that there are certain privileges as regards stamp duty which are attached by statute to sterling loans by the Secretary of State for India which are carried on the books of the Bank of England, and the suggestion was that these privileges might be forfeited if the management of the Debt were transferred to the Imperial Bank from the Bank of England. On further investigation it appears that

the statute governing this matter is chapter 64 of 5 and 6 William IV. That statute suggests that the question of who manages or keeps the account of the Debt is immaterial for the purposes of exemption from stamp duty, which is really dependent on certain compositions which are referred to in the statute as compositions in lieu of stamp duty. Can you tell me how the matter stands about those—whether such compositions have been made?—The position is not altogether simple. Indian Sterling Loans* are free of stamp duty altogether so long as certain conditions are complied with, one of which is, I think, that the books of the Loan are held either at the office of the Secretary of State or at the Bank of England. But the composition provisions relate to bills, debentures, and bonds, and as regards those the Government of India has an exceedingly favourable composition rate. I think that the composition arrangements might be capable of continuance, but what would go is the right of exemption from stamp duty in respect of Indian Sterling Loans which is quite an exceptional privilege enjoyed by India, and enjoyed, I believe, by no other portion of His Majesty's Empire outside this country. It is an anomalous situation which, if it involved an appeal to the Treasury for alteration of the statute to enable the privilege to be continued, would, I think, be rejected. I know that the Treasury regard the right as inconsistent with the rights of other portions of His Majesty's Empire. If any change in the law created an opportunity for forfeiting that right I think India would lose it. I hope I have made the position clear—that there is a distinction between the sterling stock on the one hand and bills, debentures and bonds on the other.

11,790. What is the logical reason why this privilege as regards exemption in respect of Sterling Loans should be based upon the condition that the books should be kept at the Bank of England?—I do not think there is any logical ground for the distinction from that point of view, but the argument of the British Government is that there is no logical reason for giving India exceptional treatment in this respect. She has derived it from an old statute, and so long as that statute is complied with there is no reason to anticipate that there will be any attempt to take away that right. But logic would require that India should be placed under he same liabilities in respect to stamp duty as attach to other proportions of His Majesty's Empire. At the present moment India enjoys an exceptional privilege for which it is difficult to find a logical justification.

11,791. You fear that if the sleeping dog were awakened up it might mean the end of the privilege?—Yes. I have reason for anticipating that, because when the question of extending this privilege, under certain conditions, was raised, the Treasury have taken a strong line on that point.

11,792. Can you tell me if there is any term set to the privilege in the statute?—No; the privilege to the Secretary of State of issuing and transferring Indian Stock free of stamp duty is without limitation of time. It is an absolute pledge embodied in the existing law. The position as regards bills, debentures and bonds is an arrangement based on statute, but the actual amount of composition comes up for consideration periodically, and the terms arranged have some regard to the general rates of stamp duty on bills, debentures and bonds applicable to other parties. For instance, when the general rate was raised some years ago our rate was raised proportionately, but it is still a very low and beneficial rate.

11,793. (*Sir Maneckji Dadabhoy.*) Is that an English statute, or an Indian statute to which the Chairman has referred?—It is an English statute.

11,794. (*Chairman.*) It is Section 4, chapter 64 of 5 and 6 William IV?—It dates from the days of the oldest East India Company, and the rights and privileges which the Company enjoyed have been inherited by the Secretary of State.

11,795. (*Sir Purshotamdas Thakurdas.*) In paragraph 3 of your memorandum No. 2 you say that "the arguments in favour of regulating currency policy with a view primarily to securing price stability have been much debated," and you consider that "there would be certain advantages in applying such a policy to India," but "as the United Kingdom, the sterling-using Dominions, and other important European countries, have rejected the idea of basing their currency policy on internal prices and have elected to revert to the gold standard, it is scarcely a practical issue to consider a different course in the case of India."—Yes.

11,796. In paragraph 7 you say: "It is certainly a striking fact that the Indian exchange"——I take it you mean 1s. 6d.——"is the only important exchange in the world that has appreciated in terms of gold"?—Yes.

11,797. But at the end of paragraph 7 you consider that it would be necessary that a policy of re-establishing either the 1s. 4d., or the 2s. 0d. rate should be justified "not by arguments based on past history, but on the economic factors of the present." That is your conclusion?—Yes.

11,798. This consideration would then involve the regulation of prices by currency policy, which you consider in paragraph 3 to be hardly a practical proposition?—I do not consider it a practical proposition, as a permanent currency policy. That is what I am dealing with in paragraph 3. By "economic factors of the present," I mean that one has to deal with the *de facto* situation existing to-day.

11,799. Quite so. I do not know if I am correct, but I wish to ask whether you are falling back on the position taken up by the Fowler Committee, which decided in favour of 1s. 4d. as against 1s. 3d. or 1s. 2d., which suggested by some dissenting members of that Committee, and settled the rate at 1s. 4d. as a fixed *de facto* rate?—I was not thinking of the situation with which the Fowler Committee had to deal. I was thinking of the situation which this Commission has to deal with; namely, that there is in force at the present time a market rating of the rupee round about 1s. 6d.; and I submit that that is an important factor which must be taken into due account by the Commission in deciding the rate at which the rupee should be anchored to gold.

11,800. You mention that the rupee has been at 1s. 6d. for some time. What is the period you have in mind? How long do you think that the rupee has been at 1s. 6d.?—I suppose now it is a matter of some 15 or 16 months. It is something of that sort.

11,801. In paragraph 11 you mention October 1924, if I may draw your attention to that. You say: "In the neighbourhood of 1s. 6d. since October 1924." Is that the period?—That is the period I had in mind.

11,802. I take it that you realise that in October 1924 the 1s. 6d. that you have in mind was not 1s. 6d. gold, but was 1s. 6d. sterling?—Yes.

11,803. And was in fact approximately 1s. 4d. gold?—I cannot for the moment recollect the date as to whether that was the exact discount of sterling at the time, but I take it from you.

11,804. I would be very glad if you would correct it in the proof, if you find I am inaccurate. Yes.

11,805. The rate of 1s. 6d. gold, which you now ask the Commission to look upon as the *de facto* rate, has been in operation only for one year?—Approximately.

11,806. The Fowler Committee recommended the rate of 1s. 4d. being the *de facto* rate, because the Herschell Committee suggested 1s. 4d. as the tem-

* *See* the Indian Securities Act, 1860 (23 & 24 Vic. cap. 5), and the Indian Stock Certificate Act (26 & 27 Vic. cap. 73).

porary rate, and the Herschell Committee reported I see in 1893 and the Fowler Committee reported in 1898?—The rate mentioned was that accepted by those bodies.

11,807. I wish finally to draw your attention to the recommendations in paragraph 66 of the Fowler Report: "We are, therefore, of opinion that the permanent rate should be that which has been adopted as the provisional rate in the past, and which is also the market rate of to-day, *viz.*, 1s. 4d. for the rupee." The word there used is "permanent." The Fowler Committee adopted the *de facto* rate, because for six years it had been indicated as the temporary rate. The Fowler Committee further said that it was to be the permanent rate. That rate ruled, and very effectively, for about 20 years. You recommend for adoption a new rate which has been acted up to by currency manipulation, and which has ruled only for one year, simply because it has been the *de facto* rate for that one year?—In making that recommendation to the Commission, I coupled it with the necessity of the Commission assuring itself from those authorities most capable of giving an opinion on that point, that there was no reason to anticipate a marked change in the purchasing power of gold in the period ahead. When I made that remark, I referred to the prospect that the Commission would have the advantage of discussing the matter with the Governor of the Bank of England, who is in a better position than anyone else to give an opinion as to the prospective course of gold prices.

11,808. I will deal with what you have just now said. That again is a question of regulation of prices by currency manipulation, which you have rejected as a practical proposition for India in your memorandum?—I have rejected as a practical proposition for India that the Rupee should be left unharnessed to gold for an indefinite period, and that its exchange value should be regulated by management with reference to movements of prices. I have rejected that as a permanent policy.

11,809. In fact, if I have understood you correctly, what you have recommended is this; that in the future you are not to change your ratio to regulate your prices, but you strongly recommend the Commission to take into consideration the question of prices and variations in prices up till now in fixing the ratio at present?—I do not think that a Commission charged with the duty of making recommendations regarding the future rate of the rupee can ignore the actual ruling rate of the rupee. In other words, they have to deal with the facts of the present day, and not with historical events and changes of the past.

11,810. Can you tell us of any other countries which have taken this into consideration, countries which had sound currency systems after the Armistice?—I suggest that the Belgian Government, the Italian Government, the Austrian Government and the German Government, in dealing with the future of their exchanges, have had or will have to pay regard to the actual relations of their currency to gold at the time when they frame their future currency policy. I am only saying that that is a consideration which anybody has to take into account. Of course, I ought to add one word regarding the interesting fact that the rupee exchange is the only important exchange of which I am aware whose gold value may perhaps be permanently raised. The great depreciation in the purchasing power of gold means that currencies which have retained the pre-war gold rating themselves reflect the depreciation of gold. The Indian exchange, even if it is fixed at 1s. 6d., will share that particular phenomenon with other currencies, the difference being that some portion of the gold depreciation will not be reflected in the currency, but it will not altogether be absent from it, because 1s. 6d. does not compensate by any means for the full depreciation of gold as compared with 1s. 4d.

11,811. Do you think there is any parallel between the currency systems of Austria and Italy to which you have referred, and the Indian currency system which we are considering?—The parallel is that any country which faces the problem of giving a permanent ratio to its currency must take into account the actual relation between the internal purchasing power of that currency and its external purchasing power in relation to gold at the time when it undertakes fixation. In that respect any country has to consider this problem in connection with the ruling level of prices within and without.

11,812. You think we ought to take a leaf out of what has happened to the currency systems of Germany, Italy and Austria, to which you have made reference?—Nothing of the kind. I am not suggesting that India should take a leaf out of the history of those countries in regard to their currency depreciation in the past; but I think that when countries, including those countries whose currencies have had such a chequered history lately, undertake the harnessing of those currencies to the element which is still deemed to be the most stable in the world, namely, gold, they all have to consider at what exchange ratio the internal and external purchasing powers of their currency will be equated.

11,813. I took it you quoted those countries because you thought they offered parallels to Indian currency?—I quoted those currencies in response to a question as to whether or not other countries faced with the problem of currency stabilisation had to consider the relation between those currencies and gold at the time when they had to face the problem. It seems to me that all countries facing the problem of currency stabilisation have to consider that aspect of the case.

11,814. In that question I said "countries which had sound currency systems after the Armistice." I did not expect you to refer to those countries which offered very little parallel to the Indian currency system. You referred to a permanent rate. What is your definition of "permanent"? What was looked upon by the Fowler Committee as permanent in 1898 you are prepared to recommend to-day should be changed for what may be recommended by this Committee in 1926, and in 1929 or 1930 you may be prepared to recommend that what this Committee recommends now should be changed again. What is the value of the word "permanent" then? I think you used the word "permanent" in a previous reply to me, when you said "permanent ratio"?—By "permanent" I mean that it should be embodied in Statute and regarded as unchanging.

11,815. Unchanging only in certain circumstances, or when?—I cannot believe that the Fowler Commission foresaw the world war and all the catastrophic circumstances that it led to. The word "permanent" as used among people means permanent in so far as anybody can humanly calculate—subject to the limitations of human nature. What one means by "permanent" is that it remains for all time so far as one can reasonably foresee. That is the object of laying it down. If a world catastrophe occurs, the firm resolve that it should be permanent for all time may be incapable of being maintained.

11,816. Am I interpreting your meaning correctly if I say by "permanent" you mean "not liable to change unless it has to be changed unavoidably"? Is that what you mean by "permanent"?—Unless it has to be changed unavoidably.

11,817. As the currency systems have broken down, *e.g.*, in Germany, Italy or Austria, or any other countries you mention?—Unless unforeseen circumstances arise which make it unquestionably in the interests of India to reconsider her resolve to hold the rate permanently.

11,818. From an economic point of view?—From the widest possible point of view.

11,819. Namely, in this case the economic point of view?—In this case the economic point of view.

11,820. There is no other economic aspect. Let me ask you whether the Government of India could not have avoided raising the exchange to 1s. 6d. gold. About October 1924, 1s. 6d. sterling was about 1s. 4d. gold?—I take the date and figures* from you.

11,821. (*Chairman.*) 1s. 6d. sterling, or 1s. $4\frac{13}{16}$d. gold in November, 1924.

11,822. (*Sir Purshotamdas Thakurdas.*) We are taking my figures for granted, subject to correction. Mr. Kisch, between September and October 1924 the rupee had reached 1s. 4d. gold. It was suggested about that time to the Finance Member in the Assembly that instead of an inoperative ratio of 2s. gold in the statute, 1s. 4d. gold should be substituted. —Yes.

11,823. The Finance Member opposed it?—That is so.

11,824. If this Commission had been appointed round about that time, before Great Britain got to the gold point, whatever rate was recommended by it would have been much more in the proximity of 1s. 4d. than it is to-day?—Do you mind repeating that question?

11,825. If a Commission had been appointed immediately after October 1924 to examine the whole question the *de facto* rate would have been nearer 1s. 4d. gold than it is to-day?—That is so.

11,826. Conversely, if the Government of India had chosen to appoint a Commission a couple of years later and not in 1925 as they did, the exchange might have risen to 2s. gold, as you yourself said a few moments back. It is a possibility, but by no means a necessity.

11,827. A necessity in the sense that at present the Finance Member has to purchase sterling much in excess of the requirements of the Secretary of State in order to keep the exchange down to 1s. 6d. To that extent it is an absolute necessity. It is conceivable that within the two future years to which you are referring the trend of Indian trade should take the opposite line, and so automatically retard that advance which you are suggesting.

11,828. We will not go as far as that. If the Finance Member did not control the exchange, as he is doing at present, the exchange would go much higher than 1s. 6d.?—If the remittances had not been conducted as freely as hitherto, under the conditions now prevailing there would have been a tendency for the exchange to rise higher than it has done.

11,829. Therefore, the *de facto* rate is one worked up to by the Government of India absolutely at their own sweet will, and there is nothing natural about the *de facto* rate.—What is natural about the *de facto* rate is that it is a rate which for the last few months has not been associated with any material change in prices. Since the latter part of 1924, which is the period you have been referring to, the movement of exchange has not been associated with any important variation in the price level of Indian exported articles, but in this time the gold price level rose somewhat as measured by the U.S. index.

11,830. Do you mind if I request you to exclude the economic aspect? The whole question is whether that *de facto* rate which has been maintained by so much manipulation is controlled by the Finance Member?—It is clear that the actual rate ruling at present has been influenced very largely by the character of Government operations. That cannot be questioned.

11,831. I wish to put it to you much more strongly; that it has been absolutely influenced by the action of the Finance Member, and if this action was in the slightest degree in abeyance the rate would vary tremendously.—The action of the Government in recent weeks in selling rupees at a certain maximum figure has prevented the rate from rising above that figure.

11,832. Gold cannot be tendered to the Government in India, and to that extent the natural part of a sound currency system has absolutely been cut off the Indian currency system.—The fact that under the existing position there is no means for banks to acquire rupee currency by the tender of gold, means that the increase of Indian currency has had to be effected by the regulation of the price at which the Government would sell rupees.

11,833. I wish to put it finally in this way: That the whole system is being worked under the most artificial conditions and circumstances conceivable—circumstances which have no parallel in any other country.—That I should question somewhat, because countries looking forward to stabilisation, before they actually get to the point of stabilisation, try to see that the internal purchasing power of their currency is equated by the exchange with its external purchasing power that is with the general level of gold prices, before they proceed to stabilise.

11,834. Could you name the country that you have in mind?—Well, I think that the Belgian Government is one of the Governments which to-day is understood to be contemplating currency stabilisation, and the exchange has been carefully regulated by the National Bank of Belgium.

11,835. You think there is a parallel between the financial conditions of the Government of India and of the Belgian Government?—I can only say, as I have said before, that when a country is about to stabilise it has to watch very closely the relation between its internal price level and the external purchasing power of its currency to see whether the moment is ripe and opportune, and that some period of careful watching and control is necessary to get to the point at which you can make the control automatic by fixing the gold points by statute.

11,836. (*Chairman.*) If the Indian authorities had chosen either 1s. 4d., 1s. 5d., or any other rate rather than 1s. 6d. as the rate at which the rupee should be held, would the measures which they would have had to take in order to maintain that rate have been at all different from the measures which they have taken for maintaining the 1s. 6d. rate?—No; they would have had to be measures of the same class.

11,837. (*Chairman.*) We thank you very much for your full and able assistance, and I hope you have not been fatigued by this prolonged examination.—No; and if at a later stage you want to ask me any further questions, then I am at your disposal here.

11,838. (*Chairman.*) Thank you very much.

(*The witness withdrew.*)

* In October 1924 the rate was 1s. $4\frac{19}{32}$d. gold. C.H.K.

# THIRTY-FIFTH DAY.

## Monday, March 15th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR (*Secretaries*).

Mr. A. BOWIE, called and examined.

11839. (*Chairman.*) You are the General Manager and also a Director, resident in India, of the Allahabad Bank, Ltd.?—Yes.

11840. You have been kind enough to furnish us with a memorandum * showing the chief points with which you wish to deal. You say "The control and management of the currency should be a function of Government and ought not to be delegated to an institution." Is that a general opinion, or is it an opinion which has special application to Indian conditions only?—I should say it has special application to Indian conditions.

11841. Can you tell us the main headings of the conditions special to India which led you to this opinion?—India has an established currency which has been in existence for several years, backed up by the highest credit in India—the credit of the Government. The issue of currency notes has gradually widened and has been generally accepted because it has been submitted to tests in various crises; and I do not think an issue of currency notes backed by any lesser security, or issued by a bank, which would necessarily have a lower credit than the Government of India, would meet with the general acceptance of the people of India.

11842. Might it not be said that those two conditions to which you refer are not peculiar to India alone. In other countries also there might be a currency backed by the Government, and in other countries also there has been an increase in the acceptability of the notes?—The issue of notes has been of slow growth in most countries. The Government currency note is established in India.

11843. The crux of your reply, I think, is really this, is it not—things work well under the existing system, so why change it?—We need to see a very great advantage before we put the present system into the melting pot.

11844. We have a certain volume of evidence to show that there is in India, among educated public opinion, a certain amount of dissatisfaction with, and even suspicion of, the Government as the controlling currency authority. Is that your experience too, or not?—I would say that the circulation of the currency note in India meets that question.

11845. You would not see anything in the contention that the growth might have been even more rapid if the India currency authority had more resembled that of other countries who had developed currency systems?—The Indian wants the very finest security which the country can offer. I do not think he would accept these notes unless he knew they had the backing of the Government of India.

11846. In paragraph 3 you say that the position of the Imperial Bank under its Act has left the indigenous banks defenceless against the operations of the State Bank. Will you kindly explain that idea, and tell us in what way the indigenous banks have been hit?—Banks live by borrowing money in the open market at competitive rates. Before they can lend that money on first class security they must get a margin between their borrowing and their lending rates. I believe the margin at which the banks can carry on at a profit is something between 1½ and 2 per cent. We are borrowing in the open market at a market price for money, and if we are going to lend on good security we must lend at a profit which is limited in India by the published rate of the Imperial Bank of India. The Imperial Bank has facilities by which it can get a considerable portion of its money not on the market at competitive rates. Therefore the Imperial Bank can lend on first class security at a lower rate than can those banks who are borrowing in the open market. The other banks cannot meet that state of affairs. They cannot get money cheaper, and if they increase their lending rate they cannot get first class security.

11847. That refers to a later paragraph of your memorandum, on which I will ask you further questions later?—It has left the banks defenceless against the operations of the State bank, which means that they are not in a position to compete on equal terms.

11848. Leaving further questions on this matter until we come to a later paragraph of your memorandum, let me ask, at this point, whether you do or do not consider it as a fact that the establishment of the Imperial Bank has actually been a help to other banks in times of difficulty?—No, I have not found it so.

11849. To show you whither my questions tend let me put you a specific case. Did not the Imperial Bank avert a widespread panic on the eve of the failure of the Alliance Bank?—I think that was averted by the action of the Government of India who asked the Imperial Bank, on their guarantee, to put up 50 per cent. of the money required to pay off the creditors of the Alliance Bank. That was at the instance of the Government of India.

* Appendix 78.

11850. But if there had been no Imperial Bank there would have been nobody to ask, would there?—I admit that a State bank is necessary, but I do not admit that the State bank should come into the market and compete with the other banks constituted as they are.

11851. I gather it would not be your opinion that the existence of a strong institution, such as the Imperial Bank, can be of assistance in fortifying the Indian banking system?—I do not see how it can fortify the Indian banking system if it is competing for each class of business in which the other banks are engaged. The stronger it is the worse it will be for the other banks.

11852. Could we separate the two functions of the Imperial Bank into those which are competitive, as you tell us, and those which may have a useful effect in fortifying the banking system. I think you agree that a strong central bank has a useful function to perform in the latter regard?—Certainly.

11853. You say in paragraph 8, "There are no obligations under the Act placed on the bank requiring it to make advances to other banks against Government or other approved securities"?—I believe that is so.

11854. Do you think that the granting of advances on approved securities should be made with full liberty or by statute?—My contention in paragraph 8 is that, while it is generally stated that the Imperial Bank is functioning as a bankers' bank, yet there is nothing laid down in the Act whereby the Imperial Bank is to act as a bankers' bank. It puts a tremendous power in their hands. A bank, if it is competing with the Imperial Bank, dare not go to the Imperial Bank for assistance. Take our own case. In 1913 there was a general banking discredit through the failure of some banks——

11855. You are getting on to another question, about which I will ask you specifically later, but I rather wanted now to see just what you meant by the observation that there are no obligations on the bank requiring it to make advances to other banks against Government or other approved securities. I am quite ignorant: is there any legislation in any other country imposing such an obligation on the central bank?—No, except so far as it is a general established usage, which is known to the money markets of other countries, in what form they can give assistance. They always apply for assistance to banks which are not competing banks.

11856. So it is not so much a matter of statutory obligation as a matter of recognised usage?—Recognised usage in that there is a bank in the country to which other banks can go knowing that it is perfectly impartial and not in competition with them.

11857. Now I come to the matter which I think you were just about to open. Can you tell us of any specific cases where the Imperial Bank has refused accommodation?—I can only speak from what is within my own experience and knowledge. We dare not apply, or we dare not go to a bank with the idea that we have a reserve of security, or further reserves than our own cash balance, and that we have the Imperial Bank behind us. We dare not run our business on those lines. In 1913, when there was a general banking discredit throughout the country, it was rumoured that the Allahabad Bank had applied to the Bank of Bengal for assistance. This rumour was spread very much to our discredit. We had not applied for assistance. At the shareholders' meeting a statement was made that in no case had we applied to a bank for assistance. If we did have to apply to the Imperial Bank for assistance in an emergency it would be made known to our discredit, and it would weaken our position.

11858. Then the difficulty, as I understand, to which you refer is not that the bank has refused, or would refuse, reasonable accommodation, but it is the lack of confidence caused by the knowledge of the application which has been made?—Yes, that is one of the reasons. On the other hand, we might be turned down.

11859. Have you any evidence or experience which would lead you to apprehend that you might be turned down?—Except that we are in competition with the Imperial Bank, and one does not go for assistance to a strong competitor.

11860. I understand that your apprehension is that an application to a competitor might not be viewed with sympathy?—We dare not go.

11861. It would be of some importance if you could illuminate the matter by any specific instances which have occurred in the past?—We have not applied in any case.

11862. And you cannot help us with any instance?—I cannot quote any.

11863. Coming to your paragraph 10, we return to the question which you have already raised in reply to a previous interrogation. You say the use of interest free funds, free transfer of funds, and so on, places the bank in a position, where it meets with competition for banking business, to quote rates unprofitable to other banks. What is your opinion on this point? Do you consider that competition, as regards the rates of interest between various lending banks, is in the public interest or is against the public interest—as a general proposition?—It is certainly in the public interest that there should be competition.

11864. If that is so, the question arises: Can you tell us of any specific instances of periods at which the Bank's quoted rate was so low as to be inconsistent with the public interest in the vigour of competition?—The public interest is rather wide. It includes the question of whether, if other banks find it unprofitable, it can any longer exist up-country. It is a question whether the up-country branches can be made to pay. If the banks find that these up-country branches do not pay, they might possibly drop out. Therefore it would certainly not be in the public interest if they had no competition, and if it was left entirely in the hands of one bank. But there are cases where the Imperial Bank has been doing business quite unprofitable to other banks; in fact, I should say, at below banking cost.

11865. I understand that your apprehension is that the under-cutting of the Imperial Bank of India would really drive other banks doing the same class of business out of the field, and thus deprive the public of that competition which is agreed to be in its interest?—Or drive the banks to take a worse form of security and charge a higher rate; and that would be reacting on the strength of the banks.

11866. As a matter of experience, have there been periods in which rates quoted by the Imperial Bank have been so low as to cause a likelihood of either of these bad consequences?—Yes. When the Imperial Bank came into the cities where the Allahabad Bank was working before, it immediately started quoting lower rates. We got information from our sub-offices that where the Imperial Bank went to a city it immediately formed a contact through the brokers for the purchase of a large quantity of hundis payable on demand at rates which certainly could not pay the other banks. Personally I do not see how it could have paid the Imperial Bank. At any rate it simply put us out of competition; we simply could not quote.

11867. About when would that have been? Can you fix the period?—This is an extract from our Hathras Office's fortnightly letter dated 15th November, 1924: "Money is in full demand. The Imperial Bank of India have already contracted with the big business firms of this place to purchase their demand for hundis on Bombay and Calcutta to the extent of 23 lakhs for a period of four months at one anna six pies per cent. through brokers." That is a net return of one anna three pies. At Hathras, I should think it would take at least seven days for us to turn our money round, to pay out money in Hathras to this extent for hundis, to have them listed, to have them forwarded to Calcutta and to have them collected in the Calcutta Bazaar. We have to do all that for one anna three pies. Assuming it is a week, that is, 52; it works out at something like 4 per cent. For us it will be six pies less, because we have to pay $\frac{1}{32}$nd to get our funds back to Hathras, so it would work out in our case to something under 3 per cent; that is for four months from November, at the tight money season of the year—November, December, January, February and March. No bank can do all that business and get a return on its money over four tight money months at that figure.

11868. Can you tell us if that was a state of affairs which was long continued in this particular place?—I believe this is the first year of working.

11869. It continued for a year?—I do not know how long it continued. That was November, 1924.

11870. What I want to ascertain is whether these are sporadic and unusual cases, turning up here and there, or whether it is a usual state of affairs?—This is a matter of hundis. In other offices it is a question of direct interest where we have been making advances, and have constituents for making advances on the security of produce, and we find the Imperial Bank immediately offers lower terms. Our rate is something like 7½, and the Imperial Bank offers to do the business at bank rate—5 per cent.

11871. Will you turn back to paragraph No. 5, where you say "In fact the measure of protection to the public in this respect is not equal to that demanded from the banks established under under the Indian Companies' Act in Form F, viz., to disclose the secured and unsecured advances and, as a guarantee of the independence and impartiality of the control of the bank, to show the sums due by the directors as principals and guarantors and as partners and directors in firms and companies." That measure of publicity was a special measure applied to India after the occurrences of 1913, was it not?—I think there was an Indian Companies' Act before then. I think we have always had to disclose these matters. It did not occur to me to look up that point.

11872. My information is to the effect that that was a special measure which was adopted after 1913. Do you know what happened in that year? —In 1913 several banks failed.

11873. In your view was that a useful measure, and a desirable one, under the conditions of India and under the Indian banking system?—It is an added measure of protection I should say.

11874. As regards the conditions imposed upon the bank, you refer here to the guarantee of the independence and impartiality of control, which is imposed on other banks. Let me refer you to the bye-law of the Imperial Bank itself under which "no Governor or member of a Local Board shall sit, judge or vote on any matter connected with the business of the bank in which he is personally concerned, or any motion respecting the loan or advance of money, or otherwise giving of credit to himself, partner, co-trustee, servant or relative or to a private company, firm or individual with which or with whom such Governor or member is connected." Does not that secure the adequate guarantee of independence and impartiality?—I have no doubt it does. In that case the Imperial Bank would probably not object to publishing the statement.

11875. A statement similar to that required from other banks?—Certainly.

11876. In paragraph 6 you say "The privileged position of the Imperial Bank of India hinges on the prestige accruing to them as Government bankers which, in the eyes of the public, secures to them the support of Government in an emergency. This position in itself means an actual monetary advantage in that, with their credit as Government bankers, the Imperial Bank of India ought always to be able to borrow at lower rates than other banks." Regarding the other side of the picture, however, it is the case, is it not, that the Imperial Bank renders, in its turn, various services to the Government free of charge? Ought not that to be taken into account when you are considering the balance of advantage to the Imperial Bank?—Those are banking services.

11877. Whatever sort of services they may be, they are services that cost money?—They are the services which Government require from the Imperial Bank as bankers. They are exactly the same services as are required from all banks by their customers. We all have to give the same services to our individual customers.

11878. Are they all services such as any banker might render to any customer, or are they not specific services rendered to the Government?—They are banking services coming within the scope of banks—keeping their account, paying out and taking in money.

11879. Is it, then, your contention that the Imperial Bank only renders to the Government such services as any banker renders to any customer?—I should say there is no added service which the Imperial Bank gives to the Government as a banker.

11880. As to the question of remittance facilities, again I am ignorant, but does the Imperial Bank pass on any of these remittance facilities to other banks, or does it not?—The Imperial Bank gets its remittances free. We have to pay a certain percentage. I cited, in the case of these hundis at Hathras that we would have to pay 1/32nd; that is, six pies out of one anna, three pies remaining after paying the brokers three pies, and after paying six pies to the Imperial Bank to get our money back to Hathras.

11881. Then the other banks share to no extent in the special facilities of the Imperial Bank?—No. The general public practically have the same facilities.

11882. What I was thinking of was a passage in the report of the Controller of Currency, dated 1924-25, in which he says: "The maximum rate for transfers of amounts of Rs. 10,000 and over was fixed at 1 anna per cent., but recently in order to assist other banks and to encourage them to effect their transfers through the Imperial Bank the rate for banks has been reduced to half an anna per cent." I take that to mean that the other banks did share to some extent?—No. I think that previous to that rule the Imperial Bank was giving transfers on Bombay to the general public at 1/32nd for amounts.

11883. So that your contention is that this was an illusory concession?—Yes.

11884. In paragraph 11 you say: "The strong competition of the Imperial Bank with indigenous banks is generally admitted. In argument it may be stated that through the operations of the

Imperial Bank, banking rates and charges have been lowered with a resulting benefit to trade. But if Government wished by conferring special privileges on a selected bank to benefit trade then, in fairness to the established banks, these benefits should have been made available to trade through all the banks with which the public had been accustomed to deal." Would it be a practicable proposition that Government should lend out its balances directly to various banks and firms?—No, it would not be practicable, but they could do it through the agency of the Imperial Bank.

11885. The Imperial Bank could receive instructions to lend out a proportion?—I should say so.

11886. Would that be a practicable limitation upon the Imperial Bank's control?—It would help the other banks to compete in some degree for first class business.

11887. As to its remittance facilities, would it be a practical proposition that they should also be shared out amongst the other banks?—I think all banks ought to be on the same basis.

11888. There would be no difficulty in the actual administration of such a distributive system?—Through the Imperial Bank. They have the Treasury. They are acting as in control of the Treasuries.

11889. It would have to be done through the Imperial Bank?—Necessarily; they occupy the position of Treasurers.

11890. They should do it for the other banks?—Yes.

11891. At the same absence of cost as they do it themselves?—Yes, otherwise the Imperial Bank is placed in a privileged position.

11892. I now come to your paragraph 13. I am bringing out the principal points in your memorandum. I see it is your opinion that were you to confer the right of note issue, in addition to the functions of the Imperial Bank as at present constituted, it would create an unassailable banking monopoly in India which would be to the detriment of the existence of competition amongst the banks?—That is so.

11893. And in paragraph 14, further emphasising the same aspect, you express the apprehension that were the privileged monopoly of note issue to be in the hands of the Imperial Bank while still carrying on business as a commercial bank, it would create suspicion that the Imperial Bank might deal with the needs of the general public as secondary to the needs of its own customers. As a result of that, as I understand, you come to the conclusion, in paragraph 15, that if a bank is to be granted a monopoly of note issue it must be a State bank which does not compete with other established banks in general banking business?—Yes.

11894. Would you regard it as a satisfactory solution of the difficulties and disadvantages attendant upon the present position of the Imperial Bank were its functions to be divided between, say, two institutions, one of which was a true bank of issue and the other which carried on the commercial business of a bank?—So long as the banking portion of the Imperial Bank was conducted on pure economic lines, finding the money in the same way as other banks, I do not see that there could be any objection. In respect of competition, if the bank has the guarantee of the note issue, that is another matter.

11895. That concludes the part of your memorandum which deals with the competition of the Imperial Bank as at present constituted. The remainder deals with your suggestions as to the elasticity of the currency. You express a strong opinion, as I understand it, against the holding of hundis as part of the reserve, and as against the issue of currency as against bullion. You say in paragraph 16 that "Assuming that an effective gold reserve for the note issue is established the volume of currency will increase and decrease with the gold withdrawals from or deposits in the gold reserve. This will be automatic following the seasonal demand for currency in India." It has been represented to us in evidence that to make the expansion of the currency depend only upon the inflow and outflow of gold is of no assistance in meeting the seasonal demand for additional currency, because the gold inflow comes too late; it follows the seasonal demand, and it is too late to meet that demand. What is your opinion as to that objection?—It really depends on the location where the gold reserve is kept. If it is kept in London, immediately on telegraphic advice currency notes could be issued at once in India.

11896. Can an expansion of currency, which depends only on the actual import of gold, be sufficiently elastic to meet the seasonal demand?—The seasonal demand for currency is merely the amount people want to borrow in order to finance the crops. Either the additional amount required for the season's crops is found out of the credit balance of the banks, or from getting loans from the banks, including the private bankers. There is no currency outside. You either take it out of accumulated funds or out of loans from the banks. There is no additional currency to be obtained.

11897. What you contemplate, as I understand it, is that the need for additional loanable capital should be provided on a sound system—only by the inflow of loanable capital from abroad?—If the local market is insufficient.

11898. Without any temporary expansion of the internal supply of loanable capital?—Of course, there would be an expansion of the internal supply of loanable capital if it were worth while for money to come out.

11899. That is from the hoards?—Yes.

11900. Could that be relied upon as a way of easing the money market?—That would be one portion of the expansion. Necessarily, as the surplus of the Indian crops find their markets abroad, it is merely anticipating the supply of money from the outside markets; that is to say, the outside markets ultimately have got to pay for the surplus crops. We are only anticipating the supply of that money.

11901. In the first place, as regards the lesson of experience, has it been shown in the past that the return into use of currency from hoards is of any assistance in meeting the seasonal demand, or has it not been found, on the other hand, that measures for the temporary expansion of credit by further currency were necessary?—At the point of highest trade activity we had no emergency currency. During the war, when India was at its highest point of trade activity, there was no reason to apply to currency for emergency against a deposit of hundis.

11902. Do you go so far as to say that the present provisions, by which currency is expanded to meet seasonal demands, are unnecessary?—In this form?

11903. In their present form?—Yes.

11904. You say they are at present unnecessary?—Yes.

11905. It would be advantageous, in the interests of India, to keep the screw on during the season of activity?—Or outside money coming in, attracted by the rates in India.

11906. You have no apprehension that that would have any effect in checking the normal legitimate expansion of Indian trade?—It would probably check undue credit.

11907. Do you think the use of the present provisions for expanding the currency to meet a seasonal demand has had an effect in creating

abnormal and unhealthy activities?—It may have helped to finance and hold up stocks that were not passing into consumption; in other words, overtrade.

11908. If the expansion to meet a trade demand is provided from additional currency issued against hundis, then the profit and interest goes to a central bank and so accrues to the benefit of the Indian community. If it is met by the importation of loanable capital, then the profit and interest goes to the foreigner. Why, under those conditions, is it more advantageous that it should be met by loanable capital than by an expansion of your internal supply?—All expansion of currency under the present arrangement means that the bank rate is more or less fixed. Therefore the lenders in India are not getting the full value for their money. They lose in that direction. There are two classes of interests in India; there is the borrower's interest and there is the lender's interest. The borrower gets that advantage and the lender loses it.

11909. But would it lead to a reduction in the average bank rate for the year if you had no provision for expansion of seasonal currency?—There should be a peak in the seasonal demand for money. The bank rate might go up for the season's demand for money, but immediately the crop was liquidated the bank rate would go down. The average rate necessarily need not be much higher throughout the year.

11910. But in so far as you had a higher peak and a higher average, that would be adverse to the interests of the borrower?—To the interests of the borrower, yes.

11911. In view of the circumstance that seasonal currency is issued against hundis, which pay themselves off at the end of the active season, why do you apprehend that the arrangement for the expansion of currency for seasonal purposes may lead to any permanently unhealthy trade activities?—The arrangement as it is at present permits of a situation where it is possible for the issue of currency to be controlled by the authority creating the emergency. There is no economic control. They do not put their hundis on to the open discount market where an independent body of men would limit or criticise the security. It simply goes before the Controller of Currency.

11912. Do I understand that this criticism is directed to the nature and class and status of the hundis against which the currency is issued, or as against the absence of more narrow limitations as to the amount?—It is the absence of effective control of credit. You cannot ask the Controller of Currency to be an expert in credit, and therefore the supply of emergency currency is controlled by the Imperial Bank.

11913. Supposing a system of control were to be adopted, of which the closest analogy is that of the Reichbank, by which the seasonal expansion is made against bills, and as the proportion of bills to the total reserve advances, a tax is imposed which necessitates the raising of the bank rate: would you see in that an adequate safeguard against those dangers to which you refer?—The German Central Bank is not actually in the discount market. The German Central Bank has an effective control over credit. They are discounting these bills, but it is not its own paper which it is passing; it is other banks' paper.

11914. Carry the analogy still further, and suppose we had in India a true Central Bank, and that the provision of seasonal currency were entrusted upon this basis to the control of the true Central Bank: would that be an adequate safeguard in your opinion?—Yes, so long as that bank extended its credit with an eye to keeping its position liquid. At present the Imperial Bank as constituted can discount their hundis. They need not keep an eye on the cash balance. They can rely upon this emergency currency; get hundis; send them into the currency and get further cash. They pass in the hundis. There is no effective control of credit.

11915. But such an effective control could be secured, as I understand, first of all, by Statutory provisions as to the proportions of the reserve, and secondly by Statutory provisions as to the tax for temporary diminution of that proportion?—And also having an effective body of control of men passing the paper submitted—people with knowledge of credit.

11916. Would you criticise the knowledge of credit possessed by the present control of the Imperial Bank?—Oh, no. I say it is the Imperial Bank's paper which is not passed. There is not an effective control. It passes under the Controller of Currency, and he issues emergency currency.

11917. Would not the concentration of the business in the hands of practical bankers who are responsible for the management of the true Central Bank remedy that?—At any rate it would be an effective control on the paper. I do not suggest for a moment that anything but first-class paper is submitted, but one can imagine a situation being created where the issue of currency could be extended by the authority creating the emergency or responsible for the emergency.

11918. Under what conditions would that arise?—It would arise if a bank was doing general banking business. Its customers' needs have to be supplied. The bank, for a moment, allows those customers' needs to get in excess of, shall we say, the ordinary—may be over-trading. The bank finds the money by going to the currency and there is no effective control.

11919. Such a situation could not, in all human probability, arise (there would be no reason to foresee it) if the banking control were not conducting an ordinary commercial business?—By conducting an ordinary commercial business there is an open market. They are taking what is offered.

11920. (*Sir Norcot Warren.*) In paragraph 9 you say: "As consideration for this undertaking of banking development, formerly carried out by other banks on their own resources." How long has the Allahabad Bank been in existence?—Since 1865.

11921. The Imperial Bank has been in existence for 5 years; that is so, is it not?—That is so.

11922. During the period from 1865 up to the time the Imperial Bank came into existence, how many branches had the Allahabad Bank opened?—I should say, until 1920, roughly 30.

11923. From 1865 to 1920 you only opened 30 branches?—That is so.

11924. At that time you had the field to yourselves? You had no Imperial Bank to compete with you in opening branches? If you wanted to assist the trade of the country, why did you not open more branches?—We were opening branches as it paid us to do so. As we found each office was turning in a profit, so we would open another.

11925. But you would not call opening 30 branches in that long number of years assisting the trade of the country, would you?—I would—within the province of the Allahabad Bank.

11926. Quite so, but I put it to you that it was the cost, and the risk of opening branches which prevented you from opening more?—If branch-opening had been immediately profitable, of course we would have gone ahead.

11927. But we have had to open branches where there is no profit?—But you are heirs of other organisations. The Imperial Bank has not been established only for 4½ or 5 years. You are heirs to the Bank of Bombay, the Bank of Madras and the Bank of Bengal.

11928. How many branches had they?—That simply shows they did not find much profit in opening new branches.

11929. But would you have opened these branches if we had not?—We would have gradually developed.

11930. Only in places that paid?—Only in places that paid, yes.

11931. Then that is looking to yourself and not to the country?—But our contention is that the Imperial Bank has opened branches in places in which we were the pioneers.

11932. And you say they are buying hundis at unprofitable rates?—Simply because they are not banking on economic lines. It did not pay them before to open branches. If it had paid them before they would have opened them, but it did not pay them until they were subsidised. Then they immediately went into those places in which we had been the pioneers, and they said, "We will reduce local rates."

11933. That is good for the country?—It is good for the country, but it is uneconomic competition.

11934. How long have you paid your present rate of dividend of 18 per cent?—We have paid it, roughly speaking, for 13 or 14 years.

11935. Then your dividend has not gone down since the Imperial Bank came into existence?—It has not.

11936. You still pay 18 per cent.?—We do.

11937. Then in what way are we harming you?—You are harming us in that we have not a wide enough margin of profit to be able to place money to reserves, and thus we are not able to keep on expanding.

11938. You can always do that by reducing the dividend?—I should say that the shareholders in the Allahabad Bank are not getting a bigger return than 6 per cent., which they could get in Government securities. We have 44½ lakhs of reserve, and we have 20 lakhs of ordinary capital. 20 and 40 make 60, which divided into 18 per cent. does not give much of a return on the shareholders' money.

11939. Still, you agree you are paying 2 per cent. more than the Imperial Bank. We pay 16 per cent., and you are paying 18 per cent.?—But the Imperial Bank are placing, in addition to that dividend, very big sums of money to reserve and to their pension fund. We are not.

11940. I suggest, comparing the size of the two banks, you are doing as much?—Oh, no. You have got very heavy allocations to reserve.

11941. You say that the advances on Government paper by the Imperial Bank ought to be put under statutory control, it ought to be put in the Act, and you say you have never applied to the Imperial Bank for an advance. Have you ever heard of any other bank having been refused?—I have never heard of any other bank being refused.

11942. If we had refused would not we have been placing ourselves in a false position with the Government? We are in close connection with the Government, and if we had refused would it not have lowered the prestige of Government securities?—That is a question of internal policy as far as the Imperial Bank is concerned.

11943. But you have never heard of any bank being refused?—Not to my knowledge.

11944. Then why do you suppose you would be refused?—We do not want to place ourselves under an obligation to a competing bank.

11945. That is not our fault; that is your fault.—It would operate to our discredit.

11946. If you think that, you cannot blame the Imperial Bank?—No.

11947. Other banks come and borrow very largely. They have never been refused. Would not the question of exchange come into the matter of getting in all this capital from abroad? Do you think money would be attracted to India without reference to the exchange risk?—Money would be attracted by the difference between the English Bank rate and the Indian Bank rate, taking into consideration the cost of getting gold out and back again. That would add to the cost.

11948. You say that the expansion of currency is in the hands of the Imperial Bank; that they have the control?—They have the control.

11949. I say that the expansion of currency is entirely a question of supply and demand. If there is a demand for currency it is given. If there is not a demand, it is not given.—It is the Imperial Bank's paper which is deposited with the currency.

11950. Paper which we guarantee?—Paper which the Imperial Bank has discounted to its own customers.

11951. You say in paragraph 4: "The clauses of the Act are framed to give the widest permissive powers to the Bank to engage in general banking business and so that nothing in the Act may be construed as restrictive, it is specifically stated in the Act that nothing shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank, to overdraw such account without security to such extent as may be prescribed." Do you know that the Bank's bye-law says that we can only give one lakh unsecured?—It is a pretty generous limit, unsecured.

11952. I consider it is the other way about. For instance, there are many men in India to whom the Imperial Bank would be willing to lend 10 or 15 lakhs on their own name. When they come to us we have to say, "We can only give you a lakh." What do they do then? They go to you and to other banks where they can get their 10 or 15 lakhs.—But they can get any amount of money from the Imperial Bank with security.

11953. I said without security, which is what you are alluding to. We lose all that business?—The "without security" business?

11954. Yes?—I do not know that it goes to the other banks.

11955. The men who want 10 or 15 lakhs unsecured go to the other banks?—It is a matter for the Directors. We have strictly to show in our balance sheet the amount we do advance.

11956. Our balance sheet is laid down under the Imperial Bank Act, and not under the Act under which the other banks operate?—I understand that.

11957. With regard to the matter of Hathras, before we went to Hathras we had letters from business people there asking us to go because of the high rates charged by the other banks?—Yes, they probably put up a reason.

11958. I should call that a very good reason?—I do not think our rates were excessive.

11959. They seemed to think so?—Did they specifically name the Allahabad Bank?

11960. They said other banks?—I do not think our rates were anything beyond the ordinary.

11961. Do not you think it is all for the good of trade that these rates should come down?—Trade is one section of the community. There is the

other side of the question. There are the lenders, who compose an equally large body. I do not know whether this section of trade passes it on; they make their own special profits.

11962. I understand the Allahabad Bank addressed a letter to the Government of India pretty much on the lines indicated in your memorandum?—That is so.

11963. And they received a reply?—That is so.

11964. There has been no further correspondence since?—I think a reference was made to the Finance Department on the points in that letter.

11965. Still, you accepted the arguments in the letter, since you did not answer it?—Oh, no; far from it.

11966. Why did not you go on with the correspondence?—We waited to see whether there was another opportunity of ventilating our grievance.

11967. (*Sir Purshotamdas Thakurdas.*) You said just now that the Allahabad Bank started in 1865. Can you tell us of any other bank opened about that time which started branches in India, competing with the Allahabad Bank?—There is the Central Bank of India.

11968. That was after 1900?—Since 1865 I thought you said.

11969. Can you tell us of any before 1900?—There was the Punjab National Bank.

11970. How many branches has the Punjab National Bank?—I cannot say at the moment.

11971. Approximately?—I think they have a considerable number.

11972. How many branches have the Central Bank in the sphere of your activities?—About eight I should think.

11973. You cannot give me the number of branches of the Punjab National Bank?—I cannot at the moment.

11974. You gave us an instance just now of a case where the Imperial Bank had cut into the rates. Can you tell us approximately what rates prevailed at Hathras for hundi discount as far back as your memory goes?—I should think the rates then were about four annas.

11975. That is about 25 years back?—No. I mean up to the opening of the Imperial Bank.

11976. In 1920 it was four annas?—Roughly, about that.

11977. Can you tell me approximately what it was in 1890 or 1895?—It would depend on the difficulty of getting up silver—the cost of bringing silver into Hathras. Currency notes for the seasonal demand were not generally acceptable. Now currency notes are more or less accepted. The rate was then dependent on the cost of silver laid down in Hathras.

11978. Taking identical circumstances, i.e., where you were handling either rupees or notes for the operation which you mentioned, is it not a fact that the rates have steadily and consistently gone down from decade to decade? Is it not a fact that the rates for hundis in the Mofussil district, where the crops have to be financed, have steadily and consistently gone down?—The rates for discount?

11979. Yes?—Yes, I should say so.

11980. To what do you attribute that? Not to the Imperial Bank?—To the general acceptance of currency notes.

11981. Where it is currency notes compare it with currency notes; where it is silver compare it with silver. Take, for instance, 1870, when you moved silver, and compare it with 1880, when you were also handling silver. I suggest to you that the rates of discount for hundis have steadily gone down?—Yes, as the banks kept opening in those centres. In 1880 there were very few banks.

11982. Take any decade that you like.—Well, 1860-70 I should say there were very few banks till currency notes came in, and then there was a certain development of banking, and that would bring down the rates.

11983. From 1890-1900 what was the tendency?—Then I should say the return of money was costing less.

11984. Owing to what?—Owing to the fact that currency notes were being accepted.

11985. That is not what I asked: I said, take silver or notes, as the case may be. When you had to move even silver 10 years later your rates for discount for the same were lower?—When we had to move silver, but I should say that is simply because the banks were open at some of the larger centres.

11986. And were able to discount rupees at a lower rate?—Were competing with each other, and were bringing in further competition.

11987. By private banks?—By private banks.

11988. Then since 1900, when the notes began to be popular, what happened?—Then the cost to the banks was less, and they could afford to discount at a lower rate.

11989. Do I understand all through from 1865 to 1920 your margin of profit was uniform, but the rates declined because the cost of moving money was less? Is that your contention?—I should say that is a contributory circumstance. From the fact that the cost of laying down money has got less the banks could give fair rates.

11990. It is not then, as may be inferred by some, that the rates have gone down because banks have reduced their profits in this business of discounting hundis, as they are said to have done. Can you tell me what the rate of profit amounted to in 1880, and what it was in 1921 before the Imperial Bank came on the scene?—I am afraid I cannot.

11991. You stated that the rate the Imperial Bank charges since they started in 1921 brings you in a net return of about 3 per cent?—No, I am citing this specific instance of these Hathras hundis in November, 1924.

11992. In 1924 the rate that they offered left you 3 per cent. net?—Not net.

11993. I thought you said so?—No. The total discount charge is 1 anna 6 pies: 3 pies for the broker, 1 anna 3 pies—$\frac{1}{32}$nd for getting our money back to Hathras would leave about 9 pies. That is a gross return leaving nothing for ourselves.

11994. Which works out at 3 per cent. on the capital which you locked up, I understood you to say?—Yes.

11995. The rate at which the Imperial Bank were discounting hundis at Hathras, if adopted by you, would have left you a margin of 3 per cent. net on the money locked up for the period?—But we had to pay interest on our money. We do not get our money free.

11996. I wonder if I have understood you correctly. It left you 3 per cent. net for the period that the money was locked up?—No; not net return; our costs, establishment charges and interest always have to come out of that.

11997. You would say gross return?—Gross return.

11998. What did you count upon as a fair return before 1920 for a similar operation?—Probably we would want $1\frac{1}{2}$ per cent. to 2 per cent.

11999. Net?—Net.

12000. How much gross as compared with the 3 per cent. gross left you by the Imperial Bank's competition?—It would depend on the bank rate.

12001. This rate of the Imperial Bank at Hathras had an effect in surrounding centres where the Imperial Bank had not branches. This took place at Hathras?—Hathras.

12002. Was the effect of this reflected in the neighbouring centres within say 100 miles round? —I should say so. If the neighbouring centres had any correspondents in Hathras naturally they would try and avail themselves of the lower rate.

12003. This must have meant considerably less stringency of the money market in the districts concerned, must it not?—Not less stringency.

12004. Less cost for discount of hundis means less cost for marketing the raw produce. The money the merchant got was cheaper, and to that extent he would be able to pay the cultivators a proportionately higher price?—The price he would pay the cultivator would all depend on the market for the particular commodity.

12005. For which there is competition among the various buyers?—Yes.

12006. If the buyers found they could negotiate their drafts cheaper by drawing money on Calcutta or Bombay, as the case might be, they would offer a proportionately higher price to the cultivator in competition with others?—I think it would be the market rate of produce which would more or less govern the price they would offer. Any saving they might make in their finance would remain with them.

12007. You think all the buyers would combine and say that the Imperial Bank is able to discount our bills cheaper, but we will keep up the rates?—If they could.

12008. Would they be able to do that? Would they be able to combine when they are competing one with the other and employing the smartest brokers to get the largest quantities within their purchasing limits?—I should have thought they would be able to work the market price for the produce. Any saving in administration of finance would come to themselves. If their credit is better, if they are able to get a lower rate, naturally, of course, they would keep that. They would not offer more money because their credit was better.

12009. The Imperial Bank, I take it, would offer a uniform rate to all persons of a certain credit?—Certainly.

12010. They would not discriminate between persons?—No.

12011. If people commanding a certain amount of credit could get their bills discounted at 1 anna 6 pies per cent. discount, it would be the same for everybody of that standing?—Up to a limit. The larger people have larger limits, and the smaller people would have lower limits.

12012. If people traded up to their limits they would get the benefit of the lower rate?—Yes.

12013. To that extent the overhead cost of discounting hundis was reduced?—That is so.

12014. And then they would offer a proportionately higher rate to the cultivator, unless they all combined?—The bigger house would have the bigger profit, and I doubt whether he would combine with the smaller man with the smaller limit.

12015. You do not think the lowering of the rate would be reflected in the price given to the cultivator?—No.

12016. You have considerable experience of district banks in the U.P., and in the Punjab?—I have not been in the Punjab.

12017. Then in the U.P. In your opinion, whether the Imperial Bank charges 4 annas, or 1 anna 6 pies, the difference would not be reflected in the price to the cultivator, but would be kept by the buyer as his own extra profit?—I would make that suggestion.

12018. You make this suggestion as being justified by your experience of the Allahabad Bank?—No; justified by my knowledge of how general trade transactions are put through.

12019. That a margin of $\frac{1}{8}$ per cent. in charges could be retained by competing buyers in the raw produce markets?—It is so much added to their profit.

12020. Practically then it does not matter at all what rate a banker charges for discounting hundis, because the lower the rate the bigger is the profit of the middleman?—The banker's charges would be infinitesimal in addition to the price of the product.

12021. But small savings in all these infinitesimal-looking directions would amount to something tangible on a firm's total purchase?—On the whole crop most certainly.

12022. You said that the Imperial Bank also lent out money at cheaper rates in these up-country centres. Would you give us an approximate idea of what sort of rates the private banks charge in this district you have in your mind?—In the case I had in mind we were charging $7\frac{1}{2}$ per cent. as a fixed rate.

12023. All the year round?—Oh, no.

12024. In the season?—For the season.

12025. The Imperial Bank offered to lend money at the bank rate?—With a minimum of 5 per cent.

12026. At the bank rate with a minimum of 5 per cent.?—Yes.

12027. You found that the Imperial Bank thereby attracted borrowers?—That is so.

12028. That is your complaint. May I ask if the private banks in the Punjab and U.P., in the sphere of the Allahabad Bank, also borrow at their branches?—They do.

12029. Does the Imperial Bank also borrow at the same branches?—Yes, taking deposit business. They take deposits at interest.

12030. Do you offer higher rates than the Imperial Bank?—We do.

12031. And the Imperial Bank gets a certain amount of deposit business at the lower rate?—Yes.

12032. How do you explain that?—I should say the superior prestige of the Imperial Bank.

12033. Is the difference in the borrowing rate anything tangible, or is it just nominal?—It is tangible so far as bankers are concerned.

12034. What would you say that it ranges between—1 and $1\frac{1}{2}$ per cent.?—I should say at that time nearer 1 to $\frac{1}{2}$ per cent.

12035. When the Imperial Bank makes money available in Mofussil centres on the basis that merchants get it in Calcutta and other important centres, is there any reason, from the general point of view of the development of the country, why anybody should have a grievance? Why should the people in the inland districts not benefit by the same machinery by which people trading in Bombay, Calcutta, Madras and Karachi benefit?—They bank merely because the Imperial Bank is placed in a position in which they can afford these rates.

12036. You say they can afford these rates for lending only because they get the balance free? —And other benefits.

12037. Namely?—Payment for services.

12038. What do you mean by payment for services? I should like to understand that?—We will say the return of the Public Debt Office. There may be a large return for services in the Public Debt Office. That goes into the general bank margin.

12039. You mean the Imperial Bank makes a profit on it?—They get payment for the services.

12040. You think there may be a surplus in this. Supposing that was not so, do you think there is anything in it at all? Supposing the Imperial Bank's disbursements for the Public Debt Office management was about covered by the payment received for that purpose, do you think there would be anything in it?—No, to that extent there would not be.

12041. Then we will leave that. If there were any margin there would be an advantage in it, but if there were not, there would be none. You do not know the figures, I suppose, nor do I know the figures accurately?—No.

12042. Is there any other special advantage you have in your mind?—I do not know whether there was mentioned sums of interest on free money?

12043. That is free deposits?—Yes.

12044. That is the only advantage that the Imperial Bank have?—And also their prestige as Government bankers.

12045. Those are the two then?—And the fact that they get remittances for nothing.

12046. I propose to take the remittances part a little later. Those are the main advantages: namely, free money and their prestige?—Yes.

12047. These you think are the only reasons why they are able to bring money cheaper to the borrower in the up-country districts?—Yes.

12048. Do you think it is objectionable from the point of view of the cultivator, who may be able to get better prices if his buyer can get cheaper finance from the Imperial Bank?—Yes, if you can maintain banking competition.

12049. What the Imperial Bank does has to be followed by other banks sooner or later?—If they do not make a profit they cannot keep on banking.

12050. You mean the other banks may stop?—Naturally, if it is not profitable.

12051. It has not got to that yet?—Not yet.

12052. (*Chairman.*) You say there is an apprehension that one or two of the other banks may stop; and also there is the possibility that they may take an inferior class of business?—Yes, rather than let their profits go.

12053. (*Sir Purshotamdas Thakurdas.*) If it is not a very good class of business, that cannot last very long. The main thing is whether they will stop carrying on their operations. I wish to ask whether your bank has a branch at Harpur?—Yes.

12054. May I take it that you know something about the operations of the Allahabad Bank at Harpur?—Yes.

12055. You have been established at Harpur for a number of years?—I do not know that Harpur is a full office. It has been established as a pay office.

12056. It may be a sub-branch?—Auxiliary to the Delhi branch.

12057. You have been there for a number of years?—Yes.

12058. The Allahabad Bank lends money there on wheat put in pits?—That is so.

12059. And has had a very big turnover there? In fact it was the only bank there for a number of years lending money on wheat put in pits?—That is so.

12060. Wheat carried over the Monsoon period, the slackest season in the money market?—It may be so.

12061. Is it a fact that when you started at Hapur the return to the bank was somewhere about 11 per cent., or at least more than 10 per cent.?—I should say it would be about 10 per cent.

12062. In the period from say May to October?—That is so.

12063. Later on another private bank came in, and the rate was reduced to 8 per cent?—Quite possible.

12064. Since then the Imperial Bank has come in, and the rate has been reduced to somewhere about 6 per cent., if not a little lower?—Yes.

12065. Would you call that undesirable competition?—Yes, I certainly say it is undesirable competition.

12066. You think 10 per cent. for the slackest part of the money market period was a reasonable rate?—Seeing that we had no employment at Harpur the other portion of the year.

12067. If the rate has been reduced from 10 per cent. to an average of 6 per cent. or 5 per cent., you think that is an activity of the Imperial Bank which ought to be stopped?—Unless they are placed in the same position as we are for borrowing money.

12068. But a private bank was able to lend cheaper than you?—Quite possibly.

12069. And that bank had not any of the advantages of the Imperial Bank?—That is so.

12070. Therefore, you think that no bank in India should be disturbed in its sphere of activity?—No.

12071. I am sorry, but I have not understood you correctly. There was your bank, which lent money at 10 per cent. during a period when the banks at Bombay and Calcutta would be glad of an investment at 3 per cent. or less. Another bank came in in ordinary competition, and reduced the rate to 8 per cent., and took a good slice of your business. Then the Imperial Bank came in. It has not been contended that the Imperial Bank has been lending money in that centre at anything less than the bank rate. All that the bank does is to lend money to men who are holding wheat in that area at bank rate?—That is so.

12072. You call that activity of the Imperial Bank one which is undesirable and should not be encouraged?—Because it cuts at the existence of the other banks.

12073. Exactly. Banks which were, in the opinion of some, doing much better than they should have done?—It was paying our branch there; but that 10 per cent. was only a seasonal advance. We had no advances there generally.

12074. It was the slackest part of the season in India and you made 10 per cent. then?—I admit that; but we had to keep up the establishment and pay house-rent and pay the staff for the whole year, which had got to come out of those profits for that temporary period.

12075. But when another bank came in, that bank had all the charges which you have mentioned, and could still lend money at 8 per cent., and be happy with it?—Certainly.

12076. You call that disturbance undesirable?—No, certainly not.

12077. Not the disturbance caused by the private bank?—Certainly not.

12078. You said that the reduction to $\frac{1}{32}$ for transfer of money, which was referred to in the extract read out by the Chairman, was illusory?—Yes.

12079. Why do you call it illusory? At first it was $\frac{1}{16}$ I think?—Yes.

12080. Then the Finance Department, on representations I presume from other banks, reduced it to $\frac{1}{32}$, which is a 50 per cent. reduction?—Yes.

12081. Why do you say that is illusory?—On the total transfer the gain to the bank would not be much. In any case the Imperial Bank were giving for big transfers between Bombay and Calcutta a rate which was already effected.

12082. $\frac{1}{32}$?—Yes, for big transfers.

12083. If the rate notified for big transfers was also notified as the rate for smaller transfers, would not that be a great facility to the man handling the smaller amounts?—Certainly.

12084. To that extent?—To that extent.

12085. Taking people in the districts concerned in the smaller amounts, it would be an advantage to them?—That is so.

12086. To a bank which was operating in crores it may not mean much. It would not want 10,000 rupees, but 10 lakhs of rupees transferred? But the Government of India looks to the benefit of the larger number, that is the man with small means, and to him there was a tangible concession, was there not?—The reduction of $\frac{1}{32}$? Yes.

12087. And putting it within the reach of the smaller man?—They would be glad to get it.

12088. There is nothing illusory about it then. It was a substantial gain for the man who handled small amounts and was to that extent welcomed by the commercial community especially. In paragraph 17 you say this: "Money is available in India if the price is paid for it." You had in your mind, if I understand it correctly, that if no emergency currency was issued, and money rates were allowed to move on their own merits, hoards would come out, and more money would be available. May I ask you to take your mind back to the period, January to June, 1924, when the Imperial Bank Rate ruled between 8 and 9 per cent. for five months?—Yes.

12089. You also remember, perhaps, that during that period the Imperial Bank had drawn the full amount of 12 crores for emergency currency. If that full amount of 12 crores of emergency currency had not been available, do not you think that the money market would have gone still higher?—It might have operated in another way. It might have operated as a check to credit. You remember that cotton ran up to 680 a candy, and people would need a tremendous lot of money for financing the crop. If the money was not there to finance that rise, it is doubtful whether it would have happened.

12090. I am glad you mentioned that point. If credit is scarce and money is high, what would happen is that the cultivators would have to sell cheaper, and there would be a consequent depression?—Depression in what?

12091. Depression in prices; there would be a lower price to the grower?—That is so.

12092. You think that from the point of view of the welfare of the cultivator class the Government of India should adopt that policy?—I do not believe that in this year when the price of cotton went to 680 that the cultivator was getting 680. The price, I think, was running at from 540 when the cotton came in. Later on in the year it rapidly rose, but I doubt whether the agriculturist got more than 540.

12093. He perhaps got the average between 540 and 680, because the agriculturist did not market the whole of his crop at 680, and it is a reasonable assumption that the agriculturist must have got the average of 540 and 680 according to the period at which his crops were marketed?—That is so.

12094. You do not remember any artificial manipulation in the crop or produce market of that year?—Well, I should say there was rather an extensive speculation in all up-country centres. On a rising market they all try to lay hands on the stock.

12095. There was no corresponding breakdown. There was nothing to show that the rise was unnatural. That was the year when the American cotton prices were ruling high. Some sellers might have been caught short, and so forth, but there was no counterpart to it shewing that prices were run up on speculation and when speculation was over the market broke?—Yes; I rather think that describes it.

12096. You agree?—Yes; that rather describes it.

12097. That then really was an abnormal season?—Yes.

12098. But surely the cotton market did not take all the finance?—It took a great deal of the finance.

12099. You think a great deal?—Yes.

12100. If it were not for that you would say that the price was naturally justified by other circumstances?—I should say so.

12101. And therefore, if there had been no emergency currency in that year, owing to lack of money, there would have been a smaller return to the cultivator?—Yes. There would have been a reduction in the price of goods.

12102. In a normal year do you consider it desirable that there should be allowed a reduction in the price of raw materials owing to high money rates, if such rates could be avoided by temporary issues of currency?—It all depends what the credit is financing. If it is financing a surplus of stock, holding up the market awaiting a demand for consumption, then that is unhealthy.

12103. If it was not so—if it was not what you said just now, it would be healthy and normal?—Quite so.

12104. Any setback would be undesirable?—So long as goods are passing rapidly into consumption it would be perfectly healthy.

12105. Supposing that the Imperial Bank, with their representatives on the central board watching trade conditions, find circumstances not to be what you have just mentioned, but the normal; and then finding that the currency is insufficient, put more in circulation, would you consider that to be undesirable?—Yes; I would, because it is their paper. They first pass the business, and then they judge upon it.

12106. I should think they judge upon it first, and then decide whether to ask for an increase of currency?—I will put it in another way. They first discount the paper, and then when there is an emergency they judge on the means of dealing with that emergency.

12107. Have you any reason to believe that the Imperial Bank and the Finance Department engaged in the control of currency do not carefully watch all that you have mentioned?—I have no doubt they do.

12108. Can you point out any instances where they judged wrongly and made money cheaper, and thereby committed an error of judgment?—I am not in a position to say.

12109. If money became very scarce and the rate of interest ruled very high, do you think it would tend to more hoarding, or do you think it would encourage the hoarders to come out with their money? What is your experience?—I think it would tend to make the hoarders come out to get the temporary profit.

12110. But the man who hoards does not care for interest. He cares more, according to his conservative ideas, for absolute safety?—He is still biassed by the attraction of a rate. A good rate of interest is certainly an attraction.

12111. That would occur to the man who is a banker or moneylender and hoards, but it would not matter to the layman who has hoards. He sees people scrambling about for money, and he hears people being talked about as likely to want money owing to scarcity of credit, and would not

he say: "I am a very wise man. I have no such anxiety. My money is safe in my hoard." He would not take the money out of his hoard at that juncture?—He might risk a portion.

12112. Although he hoards his money and refuses interest for it? In such circumstances, when a crisis threatens the financial market you think the man who hoards would still take out his hoard and say: "I will risk it"?—Money does come out at a good rate.

12113. You said at the start of your examination to the Chairman that the Imperial Bank was competing for every variety of business with other banks. Have you any other variety of business in mind barring the reduction in hundi rates and the rates at which they lend money in up-country centres?—General lending business.

12114. Does the Imperial Bank do any other banking business besides that which I have mentioned?—Yes.

12115. Which?—Advances on cash credits.

12116. That is, against goods?—That is against goods.

12117. That is lending?—Lending.

12118. Lending on something that is liquid?—The same as the grain transaction—the same as advancing on produce.

12119. That is advancing on raw produce?—Yes.

12120. When it is in the course of being marketed?—Yes.

12121. The Imperial Bank does not lend on landed estate. They do not lend on mortgage?—I think occasionally they do.

12122. It is against the Act. It is provided in the Act that they cannot lend on mortgage?—Well, I do not know whether they lend strictly on mortgages, but the primary security very often is a mortgage.

12123. The Imperial Bank take a lien on property when they find that a party is not able to meet the liability?—No; they may initiate the transaction where the primary security is a mortgage.

12124. It is provided in the Act that they may not do so; have you any instance to show that there has been any particular transaction of the nature you just described? You need not give names?—I have got here a Company report which speaks of 21 lakhs advance made by the Imperial Bank of India to a certain supply company on the security of the latter company's own mortgage debentures jointly and severally with the firm's guarantee.

12125. I take it that the Bank in that report is the Imperial Bank and not the Bank of Bengal?—Yes; it is 1925.

12126. That is an industrial concern, I suppose?—Yes.

12127. And the debentures of the company are a security to the bank?—Yes; mortgage debentures.

12128. What is the other field of competition? Have you anything else in mind?—Well, this is a mortgage, and *block* security against credits, and security against stock—all banking transactions.

12129. Emergency currency facilities have come on only since 1921. Before that it was not resorted to, and it was not even provided for?—It was not provided for.

12130. Do you think the very fact of its being necessary to use the emergency currency might be largely due to unstable exchange?—Yes; I would say that, those unstable conditions of exchange plus that barrier between India and the internal money market and therefore India had to stand on its own feet.

12131. The main cause of your complaint, then, is not anything wrong with the management of credit by the Imperial Bank, but something in the domain of exchange?—Something in the domain of exchange.

12132. When that is finally decided and assumes the normal, this may not have to be resorted to?—I hope not.

12133. It was not resorted to before the war period, and it had to be resorted to owing to exchange being unsettled and bankers unwilling to bring out money as they did not know at what rate they would be able to take it back?—It was an artificial position.

12134. It was an artificial remedy in an artificial period?—Yes.

12135. (*Sir Reginald Mant.*) With regard to this question of emergency currency, you have expressed the view that if the local money market does not suffice to meet the seasonal demands, then additional supplies of loanable capital must be attracted from money markets outside India; how do you contemplate that that money could be brought into India? Do you contemplate actual imports of gold and exchanging it into Indian currency?—Imports of gold so long as the sterling remittances were not available either by banks or Government.

12136. Do you consider that the Government should sell Council bills in excess of its own requirements in order to enable trade to be financed?—No; I think that would be something outside, and bringing an artificial element into the balance of trade.

12137. The balance after the Government's requirements had been met would have to be provided by imports of specie?—That is so.

12138. That would cost money?—That is so.

12139. In the same way, during the slack season that specie would have to be sent out of India?—That is so.

12140. Would not that impose an extra annual cost on the trade and production of the country?—It would.

12141. Is not that an objection to your scheme?—No. It keeps the definite guarantee that credit is tested and has got to be supplied from one market or from another. It comes in to the market and competes with other claimants for credit and is tested according to the demand.

12142. The point I put to you is whether it is not an advantage to a country to finance its trade and production from its own internal credit, when it can do so, at a smaller cost than by importing gold from abroad?—As long as there is no artificial element introduced to the manufacture of currency.

12143. Then you would admit the general proposition, but your objection is——?—To the manufacture of currency.

12144. To the machinery adopted?—And also to using the currency as a rediscounting market.

12145. (*Sir Henry Strakosch.*) I want to deal with one or two points in the first portion of your memorandum. You say there: "The control and management of the currency should be a function of Government." In the course of your evidence you stated, if I understood you correctly, that your main objection to the control of currency by an authority other than the Government is based upon the assumption that the Imperial Bank, as at present constituted, might be entrusted with it. I did not understand what your preference would be between a real central bank entrusted with the sole right of note issue and the Government?—Any other authority than the Government of India offers a lesser security.

12146. Even though the right of note issue is closely defined in its charter as far as the reserve to be set against these note issues are concerned?—The reserve before it would bring conviction of equal security would need to be an enormous proportion of the issue, the metallic reserve.

12147. What proportion would you suggest?—To commence with, until the new notes had been tested under a crisis and you had seen what happened in a panic, and had been put through practical tests, I do not think you could hold a reserve below 75 per cent.

12148. 75 per cent. of metallic cover?—To ensure convertibility.

12149. Only in those circumstances would you prefer the management of the currency to be handed over to a real central bank?—Well, I am voicing my personal opinions and say that I, as a banker, should not care to put my signature to a note with an obligation to convert it unless I have an enormous reserve in metals.

12150. Now I come to that part of your memorandum which deals with the elasticity of the currency. You there say: "The currency ought to have no concern with the provision of loanable capital," and further down you say: "Currency should not be asked to function as a rediscount market." I take it you will agree that the volume of currency needed by a country varies according to the amount of goods and services to be exchanged, and that the volume of currency therefore must be expanded or contracted according to the volume of transactions taking place?—The volume of transactions taking place in goods is regulated by the demand for those goods coming on to the market. They do not come all at once on to the market.

12151. Take what is usually called the busy season in India, the harvesting of crops. Then goods and services are exchanged much more freely than in the slack season?—That is so.

12152. For that period you would need a greater volume of currency, would you not?—Yes; or increased velocity of the turnover of your present issue of currency.

12153. A greater velocity?—Yes; for instance, if there is speculation and it holds up goods, it freezes goods down at different points throughout the country. That means an added currency.

12154. If you are not able to increase the velocity at will to correspond with this greater volume of exchange, what happens?—You will increase the velocity if you have your penal bank rate. The bank rate goes up and you make them get rid of their goods much more quickly.

12155. I do not quite follow that. How will a high bank rate increase the velocity of the money?—It will increase the velocity so that there will be no holding up of stocks at different points.

12156. I am not speaking of that. I am speaking of the ordinary crop movement. How can you, by raising your bank rate, increase the velocity of money?—It simply means that stocks are cashed in much more quickly.

12157. Is it physically possible to reap your harvest much quicker than you usually do it?—No; the harvest is reaped, then comes through the agencies, the local markets, and if people anticipate there is to be a rise in price it is held up. That means a big demand for currency on a rising market. On a falling market the cultivator finds some difficulty in getting rid of his stuff all at once. He has to do it piecemeal, as no one wants to hold stocks, and there is a less demand for currency.

12158. I am not thinking of holding up stocks. I am thinking of the ordinary process of harvesting your crops and bringing them to market. Supposing no holding up takes place, do you, in those circumstances, require a greater amount of circulating media than you do in the slack season?—Yes; you do.

12159. You say you do?—Yes.

12160. Therefore a certain amount of expansion has to take place?—A certain amount of expansion.

12161. You propose that that expansion should take place by the introduction of credits from abroad, or, in other words, by the introduction of gold which you sell to the currency office, and by that process you propose to increase the monetary circulation in India?—That is so.

12162. Let us suppose a set of circumstances somewhat on those lines: that India happens to have a very bountiful harvest, and at the same time you have very stringent monetary conditions in other countries. How do you then propose to deal with the situation?—A bountiful harvest would probably lessen the price of your goods.

12163. Yes; but those goods have to be got away and marketed?—Yes; but it would bring down the money value.

12164. Therefore, your remedy, in such circumstances, is that prices in India will have to be knocked down in order to meet the uncontrollable conditions abroad?—Not knocked down. They would remain in parity with the world prices for the same commodity.

12165. You would knock them down beyond that?—They could not be knocked down beyond parity.

12166. Have you heard the expression "prosperity crisis" used in connection with the crisis in the United States in 1907?—I have.

12167. Was not it the case then that the crisis, at any rate to some extent, was brought about by a bountiful harvest in the States, and the inability, owing to the system of currency then established in America, to expand the currency sufficiently to meet the legitimate demand?—Yes; that was so.

12168. What was the system in America that brought about that state of affairs?—More or less an issue of currency against gold, and to a certain extent, against silver.

12169. That is exactly the type of currency that you would like to see introduced into India, namely, the exclusion of hundis or true commercial bills?—Yes; but I should suggest automatic control, instead of managed control.

12170. I do not quite follow that?—If your currency was only going to come out against gold, then you would have to find gold before you would get your currency. At present we have got an emergency arrangement for issuing 12 lakhs of currency. That is more or less judged by the chief bank, the State bank. They decide in a moment when that emergency currency is to be made available. To that extent I say the issue of the emergency currency is managed.

12171. Do you know of any currency that is not managed in that sense?—Not by the bank, which may possibly under certain circumstances be the chief factor in the discount market. They are themselves in the discount market. I think all other banks are not actually engaged in discount.

12172. Let me put it in another way: Can you tell me a single currency system in which the true commercial bill does not form the basis of currency?—I should say the English system before the war—the Bank of England.

12173. Because the Bank of England can only issue notes on the security of 100 per cent. gold—is that the point?—After their authorised limit.

12174. But is it not a fact that the currency in this country which expands and contracts is not the note but the cheque?—Of course, the use of cheques does save the currency.

12175. No; it is currency, I put it to you?—It is currency, yes.

12176. Is it not a fact that expansion and contraction in this country takes place through what is called the cheque currency?—The cheque currency merely helps the added velocity of the liquidation of debts.

12177. Well, would you agree that it increases the volume of currency in the country?—Yes; it does away with the lag that would happen if there were only currency notes or gold in payment of debts.

12178. You do not agree that it is an addition to the currency?—Yes; if it did not exist more currency would be needed, because there would be a greater lag and longer time taken to pay off debts and notes floating before coming back from circulation.

12179. Therefore you would agree, I take it, that the cheque currency amplifies the currency in the form of notes and coin?—That is so.

12180. What is this cheque currency based on?—On opening credits with the bank.

12181. On the opening of credits, and incidentally also bills of exchange?—That is so.

12182. The most favoured form of credit instrument?—That is so.

12183. An instrument which, if there is need will migrate into the Bank of England, create credit balances there in favour of the rediscounting Joint Stock Bank, and thus enable it to increase the amount of credit it can grant; hence the larger amount of cheque currency?—That is so.

12184. Do you now agree that in England expansion and contraction take place on the security of commercial bills?—I do.

12185. What other system is there which does not base its expansion and contraction on commercial bills? Do you know of any other country?—Pardon me, we are talking about the expansion and contraction of the note issue, not currency. I am not aware of the cheque system elsewhere.

12186. Is there any difference between a note which acts as money and a cheque which acts as money?—There is a considerable difference.

12187. What is the difference?—Cheques are not money. They are not generally looked upon as money. No one keeps them in their pocket.

12188. But they are the medium of exchanging goods?—And banks do not lay out their credit on the basis of the quantity of cheques they hold. Banks control their credit by the amount of cash they hold.

12189. I have just tried to show that the amount of cash held by the Joint Stock Banks at the Bank of England forms the basis of credit of the Joint Stock Banks?—Yes.

12190. And, therefore, forms the basis of the volume of cheque currency?—Of the cheque currency, yes.

12191. You are probably aware of the currency system which was in force in America before the Federal Reserve Act come into being?—Yes, broadly, but not in detail.

12192. You are also aware that it was mainly the 1907 crisis which led to a change in the system?—Yes.

12193. And that the system to-day is largely a note issue based upon gold and commercial bills?—That is so.

12194. So that America found, after a great many years' experience and a great many crises, that a currency which is not based on commercial bills is less desirable than one based on commercial bills?—Of course the Federal Reserve system has got its advantages. It has not been quite proved or tested so far. There have been certain bank crises in America.

12195. Since the formation of the Federal Reserve Bank?—Yes. In 1922 a big number of banks in the North-West of America went bankrupt.

12196. But there was no general suspension, such as you had in 1907, was there?—I believe in one portion of America something like 500 banks went bankrupt.

12197. Taking the other great trading nations, on what are their currency system based—France, Germany and Italy? It is the same system, is not it?—Yes.

12198. You would agree therefore that a system such as you propose would be rather an exception to the general rule?—Well, we had the system more or less in operation in India before the war.

12199. But we have had it in evidence that it is a system which led to a great hardship in India, because of the widely fluctuating money rates between the slack season and the busy season?—But the high seasonal rate did not add very much to the average yearly rate.

12200. There was a very severe banking crisis in 1913 in India?—Yes.

12201. I understand something like 63 banks had to close down. Did that banking crisis coincide with a good or a bad harvest?—For the moment I am afraid I cannot say.

12202. (*Sir Henry Strakosch.*) I have the figures here which show that the year 1913–14 was a particularly good season.

12203. (*Sir Maneckji Dadabhoy.*) Throughout your written statement you have complained about the competition of the Imperial Bank of India and the defenceless position of the indigenous banks. In answer to our Chairman you also stated, or rather showed the disparity in circumstances between the Imperial Bank and the other banks, by pointing out that the Imperial Bank of India has paid large dividends, carried large sums of money to reserve and also pension funds. Before the Imperial Bank of India was formed, the three Presidency Banks were doing the same business. Did not the phenomena to which you now refer mark the work of those individual banks? In other words, those three Presidency Banks used to pay large dividends, carry large sums of money to reserve and to pension funds, etc., and in other directions also were competing with the indigenous banks? Is not that the fact?—That is so.

12204. Do you think then that the amalgamation of the three banks has in any other way substantially prejudiced the position of the indigenous banks?—They have opened up competition now on a greater number of points. They are competing at a greater number of points.

12205. Is not that due to the increasing trade and commerce in the country and to the facilities which have been afforded in the way of transport and in other directions?—The transport of specie to these points?

12206. Yes?—That would have helped.

12207. Then it is the general spread of competition of which you are now complaining?—Yes, of the State bank.

12208. When the Imperial Bank of India Bill was before the Assembly, opinions were invited by the Government of India, and copies of the Bill were extensively circulated. Did your bank offer any opposition to the amalgamation scheme?—No.

12209. Why did not it?—In the discussion that preceded the opening of the Amalgamated Imperial Bank, it was generally stated that the Imperial Bank would open only in undeveloped districts, and would do pioneer work.

12210. It has opened in undeveloped districts and done pioneer work in districts where there were no banking facilities of any sort?—Not with the whole 100 new offices.

12211. In some cases?—In some cases, certainly.

12212. In some cases the branch banks have been opened where other banks already existed, but those are very few instances?—No, quite a proportion.

12213. Why was it done? Was it that the people of those districts invited the Imperial Bank to start a bank there because the facilities afforded by the other banks at those places were inadequate?—Naturally the people would want to get the bank into their centre if it meant a means of getting a cheaper supply of money.

12214. Do not you think it is a serious handicap to the private individual and the general trader not to get a cheaper supply of money at an opportune moment?—Provided that the supply of money is accumulated under economic conditions.

12215. But what are the uneconomic conditions in the present case? These are the conditions: that some of the other banks, such as your bank and other banks which used to make large sums of money by way of large discounts and for hundi charges, have lost their business? Is not that so? What is the duty of the State? Is it to secure to the people a comfortable, easy carrying on of their general business by finding a means of livelihood and existence for the majority, or is it the business of the State to support the monopoly of a few firms?—My point is that I am afraid of a monopoly of banking.

12216. You are afraid of a monopoly of banking?—Yes.

12217. Which monopoly?—Which will be centred in the Imperial Bank.

12218. Where does the real monopoly come in? They lend money at the lower rates, according to your statement, and at a lower discount. They transmit money at a very small discount from place to place, and they afford more facilities to the general trader?—Let me put it as a factory. In a bank the raw material of its business is money. Now the Imperial Bank is helped to get its money, its raw material, under the market cost. Bringing a bank which is more or less subsidised into open competition with other banks, establishes what I fear is a monopoly.

12219. Is that your idea?—That is so.

12220. Then in answer to the Chairman, you also stated that the Imperial Bank should give a proportion of their balances to the other banks?—I do not put it in that form.

12221. In what form did you put it? I took down your words. I am sorry if I have made a mistake?—The reason that was urged for the establishment of the Imperial Bank, and for their operations, was that it formed a benefit to trade. Selecting one bank to hand out this benefit to trade was an undoubted favour granted to them. If the Government of India wished to benefit trade, some scheme should have been devised so that the benefit would accrue to trade through the banks with whom the traders had been accustomed to deal.

12222. You mean directly receiving a share of the balance from the Treasury, or through the Imperial Bank?—I do not formulate a scheme; but the reason given that it would benefit trade to give these facilities to the Imperial Bank I do not think is a sufficient answer. If the Government wish to afford any benefit to trade, then a scheme ought to have been devised to give the same benefit through the established banks.

12223. Through some of the banks?—Through all the established banks.

12224. You put it as an unfairness?—Well, so that they all could be on equal terms.

12225. If this suggestion of yours were feasible, where would you draw the line of demarcation? Which banks is the Government to select? If they are to give a bit to 30, or 20, or 40 banks, how would they draw the line of demarcation?—They would select the security.

12226. The banks which could afford security?—Certainly the banks which could put up adequate security.

12227. They would select those?—Yes.

12228. Can you cite to me an instance of any country in the world which has distributed its Treasury balances into a number of banks?—Yes.

12229. Which country?—In the Scottish banking system they distribute their balances. I think I am correct in saying that each bank gets the use of the Government funds for a year. In certain towns they go in rotation.

12230. They borrow?—No. I am speaking of before the war, and I do not know what the practice is now; but the Collector of Revenues and Excise of the Government used to keep accounts in rotation at different Scottish banks.

12231. I am not aware of it, but I am obliged to you for this information. You have stated in answer to the Chairman that there is no service rendered by the Imperial Bank greater than the services which other banks render to the public. Do not you think that by undertaking the development of 100 banks in unexplored centres, the bank undertook a risk of a recurring loss for many years in some of these centres?—Not through the whole hundred.

12232. But a large number are not paying?—A proportion, probably.

12233. And will not pay for a number of years, and those losses will be recurring. Is not that an adequate consideration for receiving the Government balances free?—There is also the consideration of the hope of future profits at these places when these branches have been developed. A good deal of the business passed from other banks.

12234. But at present there is an element of speculation in it as far as the shareholders are concerned?—Pardon me; I would say it is fairly clear that they will make a profit.

12235. Referring to the control and management of the currency, you say that is the function of Government and ought not to be delegated to the Imperial Bank of India. I presume you assume that large profits will be made, and that the profits will go to private shareholders?—Yes.

12236. If you receive a guarantee that no profits will go to the shareholders and the bank will only charge a reasonable amount for its services, would you have any objection to transferring it to the Imperial Bank?—I think I would, on the general ground of objecting to transferring currency notes from the Government to a new untried system.

12237. You would object?—On the ground of transferring the present established system of Government currency notes which is accepted throughout India to an untried and new system.

12238. You would still object?—Yes.

12239. Have not these currency functions in other countries been delegated to State banks?—They have grown up from very small beginnings.

12240. Could not we make a small beginning with the Imperial Bank which might, in the fulness of time, develop into a central bank or State bank?—I have no doubt it would be feasible.

12241. Then in paragraph 5 you refer to the favourable position in which the Imperial Bank of India is put in not disclosing its loans to its directors as well as guarantors, and to partners and directors of firms and companies. You are aware that these clauses in the Indian Companies Act were inserted after the crisis in 1913, where it was found that most of the banks had lent large sums of money to their directors and agents and companies on insufficient security?—I did not know that that was the primary reason for this clause.

12242. You are not aware of it?—Not that that was the primary reason.

12243. Do not you know of the famous Punjab case? It was done on account of the scandalous state of things which existed and which the Government found out in 1913?—It may be. I have nothing in my knowledge to show what were the reasons the Government had for bringing out this statute.

12244. Did the private indigenous banks protest against this and say that this clause ought not to be inserted?—No.

12245. Do you dislike it?—No.

12246. You do not dislike this provision?—No.

12247. You approve of it?—I do.

12248. Do not you think in the case of the Imperial Bank of India the very fact that the managing Governors are appointed by the Governor-General in Council and four other Governors are appointed on behalf of the Government to look after the interests of the Government is an adequate provision?—I have no doubt it is an adequate provision.

12249. In paragraph 15 you say: "No definite benefit would accrue to the community through the transfer and control of the management of the currency to the Imperial Bank of India." I understand that you take up your position on a dual ground—both as against the Imperial Bank, and also that there would be no benefit to the community?—That is so.

12250. Then later on you say that there would be a distinct loss to the banking community if the Government ceased to control currency. In what shape would the loss be?—In handing over the currency to the competing bank.

12251. How would it affect the pecuniary interests of the other banks?—Well, we will suppose at one office, at Lucknow, let us say, there is a demand for 100-rupee currency notes, and the banks have to go to the Imperial Bank to get that species of note. Supposing their constituents want to make remittances to the districts, say, of Gwalior for ghi, the Imperial Bank might hand out 10-rupee currency notes and say: "We have no 100-rupee notes at the moment," and yet their customers going there would be supplied with 100-rupee notes.

12252. You mean they would show favour to their own customers in preference to the customers of other banks?—Being a competing bank a situation such as that might arise.

12253. In paragraph 17 you say: "The Imperial Bank should be regulated by the demand for money, or, in other words, by the supply of loanable banking funds in India. Artificial measures for controlling the bank rate should not be resorted to." What artificial measures have you in contemplation?—The issue of 8 crores of currency at a bank rate of 6 per cent.—finding an emergency in a demand for money when the bank rate goes to 6 per cent.

12254. That is what you contemplate?—Yes.

12255. You have objected to the methods employed by the Government for supplying seasonal currency, and you have stated that the proper method should be foreign loans, and also getting money out of the hoards. I do not want to put too many questions on that point, as my friend, Sir Purshotamdas Thakurdas has already questioned you on that point, but I would like to put to you one or two questions in connection with it. Before the Government of India passed the Act enabling the amount to be raised to 12 crores there were many tight times in Bombay and Calcutta, and periods when emergency currency was needed. Did your indigenous banks at that time get capital out from foreign countries to relieve the situation in Bombay and Calcutta?—No; we had no access to it.

12256. You did not do it?—We did not.

12257. Did the money then come out from the hoards at that time?—I should say yes.

12258. What is the basis of your opinion?—A good deal of bazaar money did come out at the attractive rates and was placed on deposit.

12259. Was that money sufficient to tide over the difficulty?—No.

12260. Then in face of the fact that in previous emergencies sufficient loanable foreign capital did not come out, and money from hoards came out in large quantities, was there no justification for this Act and for the measures adopted by the Government?—Of course, the conditions of exchange were such as not to make it attractive for money from abroad to come into India—the exchange between India and outside countries.

12261. That is a circumstance which may happen at any time, is not it—the state of exchange?—Unless the Indian currency is brought into relation with the outside and on a common basis with the outside monetary currencies.

12262. Would it be safe to leave things at that state?—Provided arrangements were made for bringing the rupee into relation with international currencies.

12263. (*Sir Alexander Murray.*) I do not quite understand the reasons you give for your reluctance in approaching the Imperial Bank in the event of your requiring assistance. Fortunately you never required to approach the Imperial Bank for assistance, I take it?—I would not say "fortunately." It was part of our policy not to do so.

12264. As far as I know, it is the practice for banks generally in India to come to the Imperial Bank, and the advances given by the Imperial Bank to banks generally at times have reached about 10 crores of rupees. Why do you act differently from the other big banks in India in that respect?—Simply for the reason that in 1913 we got a lesson when a rumour to our discredit was about that we had asked for assistance from the Imperial Bank.

12265. Times have changed since then?—Yes.

12266. I see from this publication you are affiliated to the P. & O. Bank?—That is so.

12267. I take it if you required assistance you would go to the P. & O. Bank?—I prefer not to answer that question.

12268. Coming to the question of branch banks, I have figures here which show that out of some 88 branches that were opened up to the latter part of last year only 12 out of those 88 were opened at places where there was competition with the Allahabad Bank. Really of those 12, 4 of them were to take the place of the Alliance Bank failures, so that in fact we have the Imperial Bank only opening at 8 places where the Allahabad Bank has been in competition. Do you

consider it unreasonable, seeing they have opened about 100 branches, that they should have opened in 8 or 9 places that you are competing at?—I accept your figures, but I think they are rather larger.

12269. I have drawn my information from the evidence given to us by one of the Governors of the Imperial Bank?—Then I will accept it, of course; but the Alliance Bank offices are rather a large proportion of the 12 points added to the points where the Imperial Bank was. Of those 12 points I forget how many branches there were alongside us before.

12270. Is not it the case that one of the main purposes for which the Imperial Bank was formed was with a view of encouraging the banking habit in India?—That is so.

12271. We have had it given to us in evidence that in the case of those 88 branches the sums received on deposit amounted to 8 crores, whereas the advances only amounted in those particular branches to $3\frac{1}{2}$ crores; so that we have a surplus of $4\frac{1}{2}$ crores drawn from people at places where these new branches have been opened. Is not it a natural assumption that had the Imperial Bank not gone there that money would not have been drawn in?—No; some of it was drawn from us.

12272. Why should the Imperial Bank have been able to draw it from you?—They are the Government Bankers.

12273. I think you indicated in connection with your statement about Government banks that the major portion or a considerable portion of the deposits of the Imperial Bank, was money not borrowed at the market rates?—A good deal of it.

12274. According to the published returns that I have here—I have the annual figures in front of me—the Imperial Bank has been in existence for five years, and on the 31st December the average Government deposits in those five years were only $8\frac{1}{2}$ crores; whereas the private deposits in the Imperial Bank amounted to over 70 crores on the average?—Do you happen to have the figures for the 31st March?

12275. I have not got them here. I have only taken these from the published figures, and I am giving you the average figure at the 31st December; but on the 31st March I would say it is much larger?—Very much larger.

12276. Even allowing for its being much larger, there is a wide discrepancy between 8 crores and 70 crores. Do you think that is sufficient to justify the statement in the earlier part of your evidence that the major portion of the banks' money was not borrowed?—I do not think so.

12277. I think you said that in reply to the Chairman?—May I have the reference to that?

12278. You said the major portion or a considerable portion?—Yes; considerable portion.

12279. I think you used both words?—Did I use the word "major"? Then I must have corrected myself.

12280. Is not it the case now that the Imperial Bank gives all the other banks the facility of remitting from point to point at $\frac{1}{32}$nd?—I believe so.

12281. And they charge the public for the same privilege $\frac{1}{16}$th?—Not in all cases.

12282. I think so?—No; they were charging the public $\frac{1}{32}$nd for remittances to Bombay before this rule.

12283. Not the public, but the banks?—I think it was a case of the public, but I cannot speak on that point.

12284. I put it to you the practice is $\frac{1}{32}$nd for the banks, and $\frac{1}{16}$th for the public, which gives the banks an advantage of $\frac{1}{32}$nd against the general public?—I understood that the remittances to Bombay were charged $\frac{1}{32}$nd, generally.

12285. (*Chairman.*) The reduction is for banks only.

12286. (*Sir Alexander Murray.*) $\frac{1}{32}$nd is for the banks only, and $\frac{1}{16}$th for the public. The views you have been expressing regarding the privileges of the Imperial Bank as compared with the indigenous banks are views which are very largely held in India. You are really only voicing opinions which are not only the opinions of the Allahabad Bank, but of the exchange banks and other banks, and of the public generally?—No; I think I am voicing an opinion from my own experience.

12287. You are voicing their general views?—I more or less put these same points to the Government two years ago.

12288. Are these views not coloured to some extent by the fact that the Imperial Bank is, in a sense, competing against the established banks in certain ways—it is a new concern competing against established banks?—I do not think it is generally thought that the Imperial Bank is a new bank.

12289. In reading up these matters I find that when the Reserve Bank for South Africa was started there was a general reluctance on the part of other banks to make use of it on the ground that it was competing with them. Similarly, when the Federal Reserve Bank was started in the United States there was a general reluctance on the part of the other commercial banks to have anything to do with it. Is not it likely it is the same feeling which exists with regard to the Imperial Bank?—No. You have the Imperial Bank coming down into the market and competing with you on every item of business. I do not know what the Federal Bank of the United States does, or what the Central Bank of South Africa does.

12290. (*Chairman.*) We are very much obliged to you for your very full assistance to-day.

(*The witness withdrew.*)

# THIRTY-SIXTH DAY.

## Wednesday, March 17th, 1926.

Present:

Sir REGINALD MANT, K.C.I.E., C.S.I. (*in the Chair*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter
Mr. A. Ayangar } (*Secretaries*).

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Mr. M. M. S. Gubbay, C.S.I., C.I.E., called and examined.

12291. (*Chairman: Sir Reginald Mant.*) For the sake of our records will you give us a short account of your connection with financial matters in India?—I was Controller of Currency from 1916 till the end of 1919.

12292. And you were also for some time Secretary in the Finance Department?—For six or seven months in 1920. I officiated previously as Financial Secretary, and I retired from the Indian Civil Service in April, 1921.

12293. You are now General Manager and a Director of the P. & O. Banking Corporation, London?—Yes.

12294. You have given us a note * of the points on which you wish to tender yourself for oral examination. Is that intended to be exhaustive, or would you be prepared to answer other questions on the schemes which have been submitted to you?—I thought that, if it was permissible to travel beyond the particular points covered by the supplementary list of questions, it would be advisable to bring forward some points, in addition to those covered by the supplementary list, on which I considered my evidence might be of some service to the Commission. I do not mean to say that these are in any way exhaustive. I was in a little difficulty, as I was not quite certain to what extent the questions originally circulated in India were to be regarded as superseded by the list of supplementary questions which I received. On many of the questions in that supplementary list I felt I could not give anything more than a sort of general opinion; but I am perfectly willing to answer those questions if the Commission wish to have my views on them. More particularly, with reference to the paper entitled "Proposed scheme for a gold standard for India," there appeared to me to be certain underlying and almost fundamental issues on which, from my experience on the official side and since I have left the service of the Government of India, I thought I could offer some evidence which the Commission might regard as of some value. For that purpose I drew up what I thought would be the main issues arising from that paper, simply and purely as a basis for discussion, but by no means as suggesting that I was not prepared to answer other questions.

12295. We will begin with the note which you have submitted. There are several questions arising out of that which I should like to put to you. In paragraph 2 you express the view that the Government authorities would probably wish to reduce their responsibility and their intervention in the management of the currency. Do you hold that it would be to the public advantage that they should do so? To what do you attribute that inclination to which you refer in this paragraph?—I hope I may be pardoned if I say that I think the service which was given to India by the official authorities was the cheapest and the most efficient service of which I can conceive. I hope I may be allowed, in order to illustrate the point I make about the cheapest service, to refer to an incident which occurred in the course of my service in India when Sir William Meyer, Sir James Brunyate and myself went down to discuss financial problems. We met the three Presidency Banks' Secretaries, as they were then, and Sir William afterwards came and said to me "I imagine that we three put together receive in emoluments probably a third less than the three gentlemen whom we have had the pleasure of meeting to-day, to say nothing of any added amenities which attach to their important posts." That was only one function of the Finance Department, namely, the administration of the currency and exchange systems. There was a whole heap of others. The point I wish to make on this question of Government intervention and responsibility is the almost complete inability of the Finance Department to justify their action publicly. This could only be done by official communiques, and very often, if I may be allowed to say so, the views that we were required to suggest were views which at the moment did not commend themselves to us but which had been imposed upon us in some other way. The main thing in regard to Government intervention in exchange and currency is that at some stage or other the personality of the authority who decides these things is the ultimate factor. Occasionally you have the personality over here. At other times you have the personality of some authority on the other side. Naturally, when it comes to a case of exercising judgment, somebody must definitely have the last word. I personally felt that if there could be some system introduced by which a Government officer, however high, should not have definitely to decide these matters, and that if things could be left as far as possible to be settled by a system which everybody would understand as working automatically under certain conditions arising, a good deal of that

* Appendix 79.

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feeling which we had in the Finance Department would disappear. I have particularly in mind such questions as sales of councils and the setting in operation of the reverse councils. Another thing I have in mind is the question of determining how far gold should be encouraged to come to India, and how far the currency should be added to by the purchase of sterling securities. It is within the recollection of individual members of the Commission that prior to the Chamberlain Commission there was a whole body of opinion in India which suggested that action was being taken, or had been taken, to prevent the flow of gold to India in settlement of her favourable trade balances. That is what I had in mind when I suggested in that sentence that the probabilities are that the Government authorities themselves wish to see their intervention in exchange reduced to a minimum. As I say, I think it was the cheapest system, and I believe it was an efficient system. I am quite certain it was a system which was worked deliberately with reference to the best considerations of the country without any arrière-pensée, and without any reservations of any kind.

12296. (*Sir Purshotamdas Thakurdas.*) By " the country " you mean India?—I do.

12297 (*Chairman, Sir Reginald Mant.*) In paragraph 3 of your note you observe that the Indian Departmental memoranda contemplate two radical changes in the Indian financial system. The first is the reduction in the status of the silver rupee. Are you in favour of that proposal either immediately or eventually?—I certainly do not in the least favour any proposal to discredit the silver rupee as the Indian financial system is now constructed. I do not know how long it will take, but I think ultimately we must hope to see a change in the habits of the people (I am talking of the currency and banking habits of the people) which will make them realise that the silver rupee is nothing more than a token coin. At present it is not so, and I do not see it possible within quite a number of years, until their habits have been altered, to throw any discredit of any kind on the silver rupee.

12298. Your view, I take it, is that the currency note must, for a considerable time to come, remain convertible into metallic coin?—Yes.

12299. Would you say either silver or gold?—I should say either silver or gold at the option of Government in regard to gold for the time being, but ultimately I should like to see a system under which the rupee would be convertible into silver or gold coin; and when the acceptability of the rupee as convertible into gold coin is well established I think that the stage of passing to the alteration of the character of the rupee as full legal tender could be safely entered upon. I put that in paragraph 5, and I say " A gold coin in internal circulation and commonly acceptable is an essential preliminary to the proposed reduction of the status of the silver rupee." I put in the words " and commonly acceptable " because I am quite convinced, unless conditions in India have changed very materially in the last five years since I have been away, that there are whole areas in India where a gold coin would not be acceptable. There will be a number of isolated areas in India where, while it might be commonly acceptable, it would be useless from the point of view of the daily requirements of the people.

12300. It would be too large a unit?—It would be too large a unit because conceivably we could not put into circulation a coin as small as one gold rupee. It would be a useless coin. I base this on the experience I had during the war, when we were faced with the possibility of not being able to issue silver rupees, in which case we should have then been left with nothing smaller for the ordinary monetary requirements of the people than a five rupee note, and we would then have been faced with the impossibility of providing the country with the change required.

12301. Going back to that time, was there ever any difficulty in getting gold coins accepted? You refer to it being commonly acceptable. My recollection of that time is that gold coins were readily accepted?—I would not like to say that they were not readily accepted. They certainly were readily accepted, but the demand for their exchange into subsidiary coins was always present. The gold coin was accepted, but it at once set up a demand—I do not say for anything like the full amount of gold coins thus put into circulation—for subsidiary coins. You had to back the gold coin up in some sort of way even where everybody took it without any demur. You had to back it up by the provision of other currency.

12302. I take it your view is that there will always be a considerable demand for rupees. They will always be required as the small current coin?—Yes.

12303. But that demand might be reduced to some extent by the circulation of gold coins?—Yes. Also I think the demand for the silver rupee might be reduced if you had a smaller note—if you had a one rupee note.

12304. Do you think it desirable to introduce a gold coin into circulation in order to stimulate the circulation of gold as currency in India?—At the present moment?

12305. At the present moment, or as a permanent policy?—At the present moment I do not think it is possible. Ultimately I think it would be in itself not necessarily desirable. There would arise, and there is, a demand at the present moment, not necessarily based on economic or other grounds, that there should be a gold coin, and I think that demand will have to be met.

12306. Let us take one step at a time. You said at present it would not be possible. Will you explain on what grounds it would not be possible?—Because I think the immediately present requirement of the Indian currency system is that the gold backing in the reserves should be strengthened; that there should be certain changes made in the character of the reserves so that gold would be more largely present there than it is at the present moment.

12307. You mean that all the available gold is more urgently required for the reserve than for circulation?—That is so.

12308. Is that the only reason why you say it would not be possible at present?—No. I think it is quite clear, too, that the general conditions outside India make it impossible to conceive of gold being available in sufficient quantities for the three purposes for which India would be taking gold under the conditions which you postulate; the ordinary normal condition being in payment of her balance of trade; the other special condition being the strengthening of the reserve, and the third being for the purpose of putting gold into circulation.

12309. To pass on to the time when possibly sufficient gold may be available, would you then consider it desirable to introduce a gold currency?—Personally, I do not want to see myself as a user of gold coin, but I think the people of India do wish to see themselves as users of gold coin, and you have to take that into account. If it were not for that factor I should say, no; but I do think that one has to meet, in currency

requirements, what people want and not what one thinks they should have.

12310. You do not consider it economically advantageous?—Oh, no.

12311. But you would supply it to meet the popular demand?—That is the whole point. As I see it, the currency habit of any country is very analogous to the religious habits of a people. You cannot change their habits by saying that this is a wrong habit, and that therefore some other habit should take its place. I think they will have gradually to learn and appreciate it for themselves. The one outstanding lesson which the war impressed upon me in regard to currency matters was that any change in the currency habits of the people of India could only come about slowly and spontaneously from within, and should not be forced upon them from without.

12312. Holding those views, I take it you would not take any step such as is contemplated in the Finance Department's memoranda to stimulate the desire for gold?—No.

12313. You would not reduce the legal tender of the rupee?—Certainly not. I would not do anything whatever which would indicate that the status of the silver rupee is going to be altered. If so I can conceive that a very confused state of affairs will arise. If there were any suggestion that in the course of a certain number of years Government definitely meant to reduce the character of the silver rupee from being a full legal tender coin, I do not quite see what would happen. I have attempted to visualise it so far as my own particular sphere of activities is concerned at the present moment, and it seems to me that the first thing which one would do would be to say that one must not hold any rupees at all as, at some time or another, by Government action, or in some sort of way, the rupee would cease to be useful. You would therefore just keep the bare modicum required for daily requirements. The same thing, I take it, would operate with other people. You would not want to be caught with a stock of rupees which were no longer full legal tender.

12314. You mean there would be a large return of rupees to the currency reserve?—I should think so.

12315. The policy you advocate, I understand, is gradually to introduce gold, to let the circulation increase by natural processes, and let the sovereign or the gold mohur circulate with the rupee and be equal legal tender?—Side by side.

12316. Would it be advisable to make the note convertible into either gold or silver?—I think Government, or whoever is responsible for the note issue, must necessarily have to reserve the right of paying out gold or silver, because I do not fancy there will be enough gold to meet possible demands for encashment in gold; but where it would be possible to issue gold I should like to see a free issue on demand by the public for gold coin in exchange for notes.

12317. That is if the public wanted it?—If the public wanted it. We are only talking at this stage with reference to the internal use of gold for the convertibility of the rupee internally. We are not discussing the convertibility of the rupee into gold externally?

12318. No?—Internally, I feel that you cannot improve on the policy which Sir William Meyer introduced, namely, of giving free convertibility of notes everywhere into coin; and I would go further and say that if there was a demand for gold I would like to see that met as much as possible, consistent with the requirements of gold for other purposes connected with the stability of the currency system.

12319. My question was whether Government should have the right to give gold instead of silver in exchange for notes, if it wished to do so. At present I think the note is only convertible into rupees?—Yes.

12320. The question I want you to answer is whether you would recommend that the note should be convertible into either gold or rupees?—You mean a legal obligation?

12321. Yes?—Not quite yet.

12322. At the option of the Government?—If you put in "at the option of the Government," yes. At the option of the Government I would be prepared to go to that point.

12323. That would leave the Government free, as its gold resources increased, to cash notes more freely in gold?—That is right.

12324. Now we come on to the other radical change to which you refer in paragraph 3 of your note. You say, "So long as the note is that of the Government and not of a bank, impartiality can generally be expected from those whose function it is to manage its issue." You are referring there, I take it, to the possibility of the note issue being made over to a bank such as the present Imperial Bank which conducts commercial business?—That is right.

12325. Supposing the note issue were made over to a true central bank, would that objection of your's hold good?—No, I do not think it would hold good to anything like the same extent. It probably would not hold good at all, but I had not conceived conditions of any other issue than those which were postulated in the preamble to the memorandum, which was that the management of the note issue would be in the hands of the Imperial Bank as at present constituted.

12326. Quite so. That was contemplated in the memorandum?—The first sentence says "based on those assumptions." Supposing we were, for the purposes of the present talk, to use the term "a bank of issue" without defining how that bank of issue was to function in relation to the Imperial Bank, and assuming it was not a bank engaged in commercial functions, and supposing we had a note issue of such a bank of issue, the conditions of impartiality to which I refer in paragraph 6 would, I think, be expected of such a bank of issue. I ought to put in a caveat at this stage that if the bank of issue was to take over all the multiplicity of points at which notes are to be exchanged for coin, or coin for notes, and all the questions connected with the management of a note issue, it would require an enormous staff, and it would be represented almost at every point where Government are already represented. Also, wherever there is a Treasury under present conditions, the Imperial Bank is already represented at most of these points through its branches. The function of that bank of issue would be limited at these points to the provision of local currency requirements. There would thus be a super-imposition of another institution on top of the Government offices and of existing institutions.

12327. Do you think it would be necessary for a central bank of issue to have offices at all places where at present there are Treasuries?—I confess I have not worked out in detail—because it is quite a new suggestion to me within the last two or three weeks—how the bank of issue could operate in the up-country centres. If other people are to act as its agents—if existing banks, for instance, the Imperial Bank, were to act as agents for the supply of currency notes, then we should have to look at the question in another way. If the Government currency offices are to be maintained, and their character altered to the currency

offices of the bank of issue, the business at those particular points could not possibly be remunerative to the bank of issue.

12328. Are you referring to currency offices only, or to currency chests?—To chests, as well.

12329. Because the currency offices are comparatively small in number?—The names have been altered, but the facilities for obtaining currency are still available, only under a different name.

12330. That would require thinking out?—I only want to put in a caveat at this point with regard to a bank of issue, namely, that in its functions as a provider of currency at up-country centres that function could not be expected to be very remunerative.

12331. Probably the obligation would have to be undertaken in return for the privilege of issuing notes, which would in itself be very remunerative? Yes.

12332. You say that a bank note would require a larger metallic cover than a Government note?—My point is that it could not rest on a smaller metallic basis. I meant that with reference to the suggestion which I see in what I hear you describe as the Finance Department memorandum. I put that point in with reference to the suggestion that the cover for the note issue could be as low as 20 per cent.

12333. On payment of a tax?—On payment of a tax, and the general contemplation is that it should be 30 per cent.

12334. You consider that to be too low for safety?—I think that is inadequate.

12335. What is your view as to the possibility of a bank note being readily acceptable in India, provided there is sufficient metallic backing. Would it in your view circulate as freely as a Government note?—I should have said no from my experience. I think it will ultimately circulate, but I think at first there must be questions asked.

12336. It would take a little time to establish it?—I think so.

12337. Then what would be the result of that—a larger hoarding of metallic currency?—I should have said that that would be the probable consequence.

12338. In paragraph 8 of your note you say that the admissibility as fiduciary cover for the note issue, whether Government or bank note, of internal trade bills appears to you to be questionable. You say that the primary objective should be to attract gold to the Indian currency. Is that the only reason why you question the policy of issuing notes on the security of internal trade bills?—No. That is not the whole of my objection. My objection is implied in the two sentences which follow.

12339. That is with reference to the Imperial Bank purchasing the bills?—That is one aspect of it. The other aspect of it is that I never have seen in India a sufficiency of internal trade bills which I should like to accept as cover for a fiduciary issue. I do not say they do not exist in limited quantities, but I do not think that they exist in anything like the sufficiency required. The bulk of Indian merchant business is done on the basis of cash credits; that is to say, on running overdraft, the amount of which will vary from day to day, and not by the making of bills. Bills can be drawn against specified quantities of goods when these goods are to come into a country or when they go out of a country, or when any goods have been manufactured, and have been purchased internally and the purchaser wishes to defer payment for any legitimate reason whatever; but financial habits in India do not lend themselves to the making of internal bills. A merchant house which is about to buy raw material for the purposes of export, prefers—and I can quite understand it—to come to some arrangement with their banker on the basis that during a specified period they will need accommodation, say, to the extent of 25 or 30 lakhs as the maximum at any moment for their outstanding overdraft; but on Monday they may be 20 lakhs overdrawn; on Tuesday they may be 15 lakhs and on Wednesday they may be 22 lakhs. This is a much cheaper form of finance from their point of view. Besides I do not see how a man can begin to draw his bill. Supposing that he is a purchaser of cotton in Bombay from somewhere in the Gujerat: he cannot be drawn on by the cultivator for the amount of cotton which he proposes to buy assuming he has settled the price. His method of operation is to send, in the crudest form, a sufficiency of notes or silver coin. He goes round and buys what he can, here and there, from either the cultivator direct or through some intermediary. He cannot make a bill in that case under those conditions. That is why I doubt whether there is a sufficiency of those bills in India to justify our being able to say with confidence that they are available for fiduciary cover.

12340. Do not you think it possible that the practice may change in that respect, and that the supply of bills may increase?—As yet I cannot quite see it. I have endeavoured to see it, but I cannot see the change yet, because you have not got in India a whole heap of intermediary links which exist in this country. You have not got accepting houses. You have not got the possibility of drawing against the goods to be supplied or on the purchaser of goods.

12341. Let us pass to the alternative system which you recommend. You say that the primary objective is to direct gold into the Indian currency. Supposing that instead of increasing the currency note issue against bills we were to force imports of gold into the country, would not that gold have to be sent out again in the slack season?—I think it is very probable. Some of it would. I do not say all, but some of it would.

12342. What would happen to the rest. Do you think it would go into currency or go underground?—I contemplate it remaining in the currency.

12343. In the currency reserve?—In the currency reserve. I can see that the reflow of funds back from up-country during the slack season would be checked by a certain amount of the currency gold going back from out of India.

12344. You recognise that the system of expanding the currency on the security of bills provides for automatic contraction of it again as the bills mature?—That is the theory of it, and I can say that we in the Finance Department in 1918 and 1919 were extraordinarily attracted by it. We saw the system referred to in America. We saw it working there, and if you would care to do the old Finance Department the honour of referring to the memorandum which we sent, and which is, I think, among the papers of the Babington-Smith Committee, you will find the joint product of the three of us who worked on this idea. We were very much attracted by it. I do not know how far this is relevant, but at any rate it is of interest. When it came up for examination in the Babington-Smith Committee, those on that Committee who had had practical experience of bill business said "It is not by any means so easy but let us have a shot at it." That is really what it came to. We put it, on the Babington-Smith Committee, on the basis that it should be against export bills, and if

internal bills could be connected with actual commodities they also should be connected; but we have had experience of it now practically, and we know quite well that whatever may be said about the bills, they were bills which were forced to be made for the purpose of providing cover—I do not say to the whole extent, but to a certain extent.

12345. But the currency actually was contracted?—Yes, the currency was contracted, not because the bills had paid themselves off, but because there was a reflow of currency from other sources.

12346. How would the currency be contracted if the expansion were based on imports of gold? You say that only a certain amount of it would be re-exported?—Yes, it would entirely depend on the character of the season and the differences of money rates between India and elsewhere. All that would tend to send gold out or keep gold in. Last year—and Sir Norcot Warren will agree with me in this—there were quite long periods in the slack season when money was unlendable in India. If you got ½ per cent. or ¾ per cent. for money you thought you were very lucky. There was no means of getting that money away. It might have been used elsewhere but there was no means of getting that money away except by everybody doing the same kind of exchange operation; that is to say, of buying gold exchange ready and selling forward gold exchange so as to bring it back at a later time. The result was that a good deal of money there remained absolutely idle. If there had been a possibility of physically contracting the basis of the currency, and of being certain of being able to bring gold back to India when money rates again changed in the other direction, you would have had a natural and automatic contraction when money was in surplus in India, and a re-attraction of it to India when money was in demand.

12347. In your last paragraph you refer to the different functions which the Imperial Bank would have to discharge if it took over the note issue, and you suggest that these different functions should be differentiated, and that their discharge should be effected not by one single institution, but by separate institutions or agencies. Have you thought out a scheme for differentiating those functions?—In a vague sort of way I contemplate that you would necessarily have to have a central bank of issue. The problem, I think, must be segregated from the other problems by which the whole of these questions are surrounded. I think we need to go into an investigation of the problem by itself of a central bank who would be charged primarily with the function of endeavouring, by a monetary rate policy, to keep exchange stable with an obligation to buy and to sell gold, and also with the duty of holding the ultimate balances of the country, who would not be endeavouring to engage in commercial business excepting in a very limited and liquid way, and who would make no attempt to attract deposits by the offer of interest, and who would, generally speaking, stand so outside all existing banking institutions (and here I make a point of very great importance) and so outside Government that it could afford to speak to everybody, including the Government, with complete impartiality and with complete independence. Its sole function would be the regulation of the financial system of India so far as it was affected by Government operations or by operations by other banks without any consideration at all of the effect of its decisions on matters extraneous to the institution of a sound system of banking in India. Had such a body been in existence at the time when Government proposed that there should be taken into the currency as cover for the fiduciary issue the internal trade bills of which we have been speaking, I conceive it would have said to Government, "We will not do it; we do not believe these things exist; we have not found them. If we do find them we will take them in." I would like to feel that you have an institution out there in India which would be so absolutely strong and independent that it could take up the same attitude towards the Government as we have known the Bank of England here take up, and that it could take up the same attitude towards banking institutions such as the Bank of England takes up here, and whose whole business is to keep itself thoroughly and absolutely liquid, and who would not hesitate to haul over the coals any attempt at over-trading, or over-speculation, or the growth of habits inimical to sound banking.

12348. You would make this institution entirely independent of Government?—Yes, entirely independent of Government in its functions and in its operations. I imagine that Government would necessarily have to come in as a shareholder; because I conceive that the reserves of the Government of India—the paper currency reserves and the gold standard reserve—would probably have to go over to it, and therefore necessarily the Government would have to participate in such return as these assets, which would be handed over to them, would earn.

12349. The Government would be a large shareholder?—The Government would be a large shareholder.

12350. Would it have no representation on the governing body?—I should like to see no representation as such.

12351. The largest shareholder would be unrepresented?—The largest shareholder would be unrepresented.

12352. Do you think you could obtain efficient direction and management in India?—I agree with you that that is one of the most serious practical difficulties.

12353. If you cut off the Government from all participation in the direction of the bank, and the Government is not allowed to have anything to do with it?—You have put one of the serious practical difficulties. That is one of the many difficulties which, as I said, surround the question. Strictly speaking, there are only two alternatives which we can consider at the present moment. One is the continuance of the present system under which Government manages exchange and currency. I can see that we can limit to a large extent the exercise of judgment by individual officers of the Finance Department by making certain statutory obligations in regard to some portion of the exchange system; that is to say, you can give it a legal foundation. The other alternative is to set up a central bank, and if your central bank is going to be managed by the Government, or Government is to be represented on it, or the Government is to have a large share in the direction of affairs, well, I do not think you are doing anything more than making another Government Department and adding to it the control of the monetary policy of India, which the Government at the present moment does not control, though it does influence it.

12354. Then we come to this position—that the currency system has been managed in the past by Government with reasonable efficiency, but that it would be an advantage to make it over to an independent body. Surely the Government has to satisfy itself before divesting itself of those responsibilities, that the body to which it would make them over would be competent to discharge them, and you say that is a difficulty which you

cannot get over?—I think it is a very serious difficulty.

12355. You see my point?—I quite see your point.

12356. How is Government to divest itself of these responsibilities unless it is assured that the body that takes them over will be efficient?—I do not see how Government can guarantee that there will be a supply of the human material available now or at all times for the efficient management of a central bank. A risk of that kind is inherent in it. It is a risk which every-body has to face at all times in regard to any enterprise. Under a system where Government continues its present functions, Government is taking exactly the same kind of risk under the present system. It relies on the raw material that it recruits, and takes the risk that there will be a reasonable chance of securing from its recruits a proportion of men who will ultimately be capable to assist in the discharge of these functions; it trains men up and so secures itself. I cannot see how one can guarantee that the central bank would be able to obtain immediately and for all time the necessary material. I take it that if there is a demand the supply will come into existence. I know my role here is to answer questions, but I would like to put this question: Assuming that these functions were transferred over to the Central Bank, and assuming you had not got the need in the Government department for men who would put themselves to the study of these questions and endeavour to master them as a purely official ambition, would you have a supply, on the Government side, of the necessary material?

12357. You mean that if you have a Central Bank the Finance Department would atrophy?—You know yourself, Mr. Chairman, that it is less than fifteen years since the office of Controller of Currency was created. Previously it was a function attaching to the Controller and Auditor-General. The differentiation took place, I think I am right in saying, either in 1913 or 1914, by reason of Government realising that there was a whole series of technical questions for which it was desirable for them to create a small technical department. It was an extremely small department, and in its early days of recruitment it was not in any way easy to find suitable men. I can speak from that point of view, because at all times in the Finance Department we looked round about to see whom we could find for the purpose of carrying on. Those are the same problems that are going to face the Central Bank. As I say, if there is a demand for that type of man I take it the supply will come; I do not think in the early years of its existence it can do without recruiting from within the Government department which has made a study of this question, because I think it must; but later on I should hope to see it find its recruitment outside.

12358. (*Sir Henry Strakosch.*) With reference to paragraph 7 of your memorandum, you say that the proposal contained in the official memoranda so far as the metallic proportion in the reserve is concerned is inadequate in your view. What metallic ratio would you recommend should be held in the currency reserve to assure the external value of the rupee?—The external value?

12359. Well, that is its primary object, is it not? A metallic reserve is held to assure the external value of the rupee; that is to say, its gold value?—Without reference to its internal convertibility?

12360. The two go together, do they not? If you make your token coin convertible into gold, for that purpose the reserve is there, and you will be assuring the internal value as well as the external value of the rupee?—To maintain the convertibility of the rupee externally I think requires an entirely different method.

12361. Let us look at it in a different way, namely, to stabilise the exchange, which is in fact the same thing?—That is an extraordinarily difficult question. The extent to which seasons in India can vary cannot be measured in terms of percentages. If you have three years in which the balance of trade goes against India, if you want to stabilise exchange on the basis of the metallic proportion in the currency, I think you would have to have a full cover.

12362. 100 per cent. cover?—100 per cent. cover.

12363. On your note? Are you speaking of notes?—My paragraph was with reference to notes.

12364. You would need 100 per cent. cover to assure the external value of the notes and the rupees?—If you have got to give out gold both for the purpose of meeting an internal requirement for converting notes into gold, and also——.

12365. You had turned down the proposal of the Finance Department to give India a gold currency and make the token money convertible internally into gold. I eliminate that. I am merely trying to get what was in your mind when you said that the proposals of the Finance Department as regards metallic reserve are insufficient. What would you regard as sufficient?—I cannot conceive that we can work on a basis of a metallic proportion to be determined by the possibility of having to meet all the note circulation being required to be turned into gold for the purpose of export.

12366. If you do not care to give a proportion, can you give us the minimum total amount of gold to be held in the reserve?—My own feeling about it is that I would like to see a gold note in existence in India with practically a full cover.

12367. A full cover—100 per cent. gold. I will turn to another subject, namely, the commercial bill. You say in paragraph 8 as a reason against having the note issue covered, to some extent, at any rate, by commercial bills, that the primary object should be to attract gold into Indian currency. Do you not then contemplate any fiduciary cover?—I should like to see the fiduciary cover, if it were possible, so reduced as to represent a minimum quantity, and of securities which are purchased off the market—not *ad hoc* securities.

12368. Government securities?—Government securities for which value has, at some time or other, been received.

12369. You regard that as preferable to the commercial bill?—Yes.

12370. But you are probably aware that in none of the central banking systems in existence, so far as I know, are Government securities regarded as the most desirable form of fiduciary cover?—Yes, I know that.

12371. Why should it be desirable in India when it is not desirable in other countries?—My feeling about that is the conditions are so different.

12372. Your objection is, as I think you pointed out to the Chairman, that there are not any commercial bills fit to be placed as security behind the notes?—There is not a sufficiency of them to make it worth while to provide for that.

12373. But could you not stimulate the drawing of hundis in order to produce a sufficiency of that paper, if it is a desirable paper to have?—If the conditions of trading in India were such that

you could work on a system of bills, and if you had a system of accepting houses and discount houses, and a money market functioning on the basis of three months or four months bills, then I think you could work that into the currency system, but not directly.

12374. But is not a Central Bank's power to discount or re-discount bills fundamental to the establishment of a discount market? Is it not a fact that the discount markets in all the great financial centres rest really upon the possibility of re-discounting with a Central Bank?—I agree that is so.

12375. If that is so, would not the establishment of a central bank, empowered to discount or re-discount bills of a certain character, be helpful to the financial organisation of the country?—I certainly contemplate that should be one of the functions of a Central Bank.

12376. I take it then, in these circumstances, you would be in favour of an eligible commercial bill being put behind the notes, because that is the only way, I take it, by which re-discounting, in tight times, might be effected by the Central Bank?—Yes. The re-discounting of eligible paper in London does not result in an expansion of the note issue; it is done to such a point as it is regarded as safe for the Bank of England in its banking department to reduce its proportion.

12377. But in this country expansion and contraction take place, not in the form of notes, but in the form of cheques?—Yes, I agree that it does that to a large extent, and I would much prefer to see a similar system in India.

12378. You also refer to the difficulty of getting bills, because the purchaser of raw material will not know upon whom to draw. In the ordinary course he would draw upon the person or firm who buys the material from him?—I do not follow that with reference to Indian conditions.

12379. If a purchaser of raw material buys the stuff and sells it to a consumer or manufacturer in India or abroad, he would draw upon that firm?—Yes.

12380. And the bill would in that way be created. If he gets the signature of his bank on it, he would be able to discount it at the Central Bank?—I would like to particularise that question. I am not quite sure I follow it. Let us take the case of a firm who is buying raw jute for the purpose of export. How is the suggestion to be worked?

12381. I take it that the purchaser sells his material almost immediately he has bought it?—Before he buys his raw jute in one of the jute districts he has sold it. You propose that the bill he draws on his purchaser abroad should be taken in as cover?

12382. It would be discounted in the ordinary course?—That bill is not accepted. How could he give it to the Central Bank?

12383. You probably know that there are ways and means of getting over that. There is, for instance, the banker's acceptance. A great deal of the bill business is done by getting a bank to accept?—Yes, but the acceptance would be outside India.

12384. Not necessarily?—Who would accept in India?

12385. Just as any commercial bank gives a cash credit, it would probably be prepared to accept it?—The conditions of business in India are such that the banks finance the export trade by buying these bills. You are now suggesting that the banks should finance by accepting on behalf of the purchaser over here?

12386. Not necessarily, if the bank accept and if there is a discount market, the discount market would buy these bills. Failing a discount market, probably the bank itself would?—Primarily, these would be sterling bills?

12387. No, I am not thinking of sterling bills. I am thinking of domestic bills?—I do not see where domestic bills are coming in under that scheme, because I understood your suggestion was this—that you have a purchaser of raw jute outside India; you have a purchaser of raw jute inside India, and the purchaser of raw jute inside India wants to go and buy his jute up-country. At the present moment, in order to do that, as I have explained, he has an arrangement with his bankers that he can take out so many lakhs of rupees. To put it absolutely in the crudest form, he converts that credit into notes or rupees, and he physically has them sent up-country, and there he buys the raw jute. You say that because he has sold in England therefore he can draw a bill instead of getting the necessary notes and rupees, by using a cash credit. I suggest that that bill must necessarily be drawn on somebody outside India.

12388. There are jute mills in India that are buying raw material. Is there any objection to the seller drawing on the buyer in India of jute and discounting his bill?—But the mill which buys raw jute buys jute for the purpose of manufacture at its mill into goods, and for that purpose, who is to draw?

12389. I am not speaking of the mill. The mill, as the buyer, owes the money and is therefore the debtor. The creditor has got to draw upon the debtor—not the other way about?—Then is it the up-country seller who has to draw on the mill agent?

12390. Yes. That is the ordinary course in which bills are drawn. The purchaser who is not willing to pay cash is prepared to accept the bill?—I agree, but, as I explained to you, under the conditions in India the purchaser of the raw material goes and meets the grower or the producer with bags of rupees and with wads of notes. I have seen it. In the Central Provinces particularly, during the busy cotton season, I have seen representatives of three or four of these big exporting houses setting forth before dawn in order to catch the carts bringing in the cotton before they have come to the market, and saying, "There is your cotton; I want to buy it; here are my rupees," and the chuprassis are behind them with the rupees.

12391. But there are other ways of producing perfectly genuine bills, namely, by drawing upon your bank, the bank agreeing to accept. What I want to put to you is this. Is it not a fact that the great virtue of all central banking systems is that they are, in a sense, a place of refuge, in case of an emergency, for other banks?—I agree.

12392. And that the only way of being able to liquefy their assets is by presenting bills to the Central Bank? That is the accepted principle of a centralised system of reserves?—Yes, I quite agree with you that that is the whole theory of it, and, as I said in answer to the Chairman, we were very much attracted by it; but I say that the experience in India has shown that there is not in existence at the present time a sufficiency of that kind of bill which ought to be made cover for further financial facilities. Whether they should not come into existence or should not be called into existence, is another question. I should like to see them called into existence, and I say the preliminary to that is the existence of accepting houses and a discount market.

12393. May I ask this? Do you think that the habit of drawing bills can be fostered in India?—If it is cheaper and satisfactory I think you will find it can be, and will be.

12394. If it is cheaper, you say. Of course, you are aware that the discount rates in other countries are usually far lower than the rates for cash credits?—Yes.

12395. Would not that be an inducement to raise credits, not through an overdraft but through the drawing of bills?—I think that question must be examined with commercial men—as to which of those two methods would suit them from the point of view of efficiency and cheapness.

12396. (*Sir Maneckji Dadabhoy.*) In paragraph 3 of your memorandum, as well as in answer to questions of the Chairman, you laid a great deal of stress on the desirability of not discrediting the silver rupee; and you stated that for quite a number of years the silver rupee must stand as a token coin of the country. Am I to understand that you entertain this view because of the silver rupee being a token coin and there being no other coin to replace it?—Yes; I think that probably puts it.

12397. I have correctly put your situation?—Yes.

12398. Am I to gather from that that if the silver rupee can be reasonably replaced by another coin, a gold coin which is practicable, you would have no objection to the issue of a gold coin?—Yes; if you could get the gold coin functioning in the same way as the silver rupee.

12399. You would have no objection to the gold coin?—If you could do it.

12400. Then you also stated in answer to the Chairman that it is not desirable or possible at present to stimulate the gold coin?—Yes.

12401. All the gold available being more urgently required for the reserves. You know that large quantities of gold have been imported into India, particularly during the last few years. If facilities are given for the free coinage of gold coin in India by the establishment of a Mint independently of Government imports, would you have any objection to the stimulation of gold currency in that way?—Does that question mean that gold which has gone into India in the form of bullion should be tendered for coinage?

12402. Yes, by the people, and that the gold coin would circulate. Would that meet with your requirements?—I do not think that is possible.

12403. Why?—Because it implies that the gold which has gone into India has remained in the same unmanufactured or unused form as it came into India, but it has probably been broken up.

12404. Your argument is that it is not possible because it remains in an unmanufactured form?—No; I say it has been used. I say a good deal of it has gone into use in the form of ornaments.

12405. Ornaments in private homes?—It has been broken up. The big bars have been broken up, and the small bars have been still further broken up.

12406. But if the people find that it pays them to withdraw it from the hoards and unearth the bullion and bring it back to coinage, have you any objection to the free coinage of gold currency?—I think you might have then an enormous redundancy of coinage.

12407. You are afraid of a redundancy of currency?—You are bound to get that. You would have an enormous amount. If you felt that there would be a large return of all this gold now in use as ornaments if they were to be stripped off the persons wearing them now and turned into coin, there must be a very big redundancy.

12408. But your objection, as I understood you in answer to the Chairman, or your opposition to the gold currency was due to the fact that all available gold ought to go to the Government reserve?—Yes.

12409. And nothing would be available, all going into the Government reserve, for coinage into gold currency?—Yes.

12410. My argument is that if people choose to bring out their gold and put it into current gold coins, or sell it for the purpose of being manufactured into gold coins, the contention which you have now raised has not the same value with regard to the gold currency to-day, independently of the Government reserve?—I am only pointing out to you the dangers of what would happen. There is a danger that there would be a tremendous amount of circulation. The circulation would be very vastly increased because your idea is that you want to convert an inert circulation into an active circulation. I do not say that it is a wrong thing or a right thing, but I say you have to consider it on that point.

12411. Redundancy of currency?—I think I have envisaged that possibility.

12412. The people will not bring out their gold bullion unless it pays. They will not do it for fun. They will only do it if it is remunerative, and then, in the circumstances I have put, it is not likely to interfere with the gold reserves of the Government?—It would not interfere with the gold reserves of the Government, I agree; but it would mean a very large addition to the circulation if your premises are right, that the people would be tempted to do so.

12413. Unless it causes a plethora, is it desirable that there should be a large gold currency in India?—I must confess it is such a new suggestion to me that the Government should allow the Mint to mint coins in return for gold bullion in the country tendered for conversion into coins, that I should like to think it over. I had never contemplated that that was a possibility. It does not affect the argument that I have made about the gold going into circulation. Your suggestion is that the people should be allowed to convert what they have now got as inert gold?

12414. What they import hereafter?—That is another question.

12415. That is what I mean—what they import? —If you propose that any gold that they can further import into this country should be turned into gold coin, then I think you impinge on my suggestion, because I want to see the gold held in reserve.

12416. You have no objection, then?—I should feel that there was a great deal to be said against it.

12417. For imports?—Yes.

12418. Because, in your opinion, that would conflict with the Government reserves?—Yes.

12419. And Government purchases?—Yes.

12420. Is that your view?—It would conflict with the fact that I would like to see the gold in reserve not going into circulation except quietly and slowly at the option of Government.

12421. That is quite true, but there is this private competition in the matter of purchases of gold with the Government now going on. How will that affect the situation?—I do not follow you.

12422. People import gold on their own account?—Yes.

12423. There is no prohibition and no statutory restriction at present on the import of gold into the country for private use?—No.

12424. If they choose to do that and tender that to the Mint for the purpose of coinage into gold currency, what objection is there to it?—Then my point about that is that the gold would not then be brought into the country for the purposes of going into the reserve as a backing to the notes.

12425. That is your contention?—Yes.

12426. (*Chairman.*) It might help to clear up the point if I called your attention to the report of the Babington-Smith Committee of which you were a member?—Yes.

12427. In paragraph 67 the report says: "In order that gold currency may be available when required, it is important to provide facilities in India for the conversion of gold bullion into legal tender coin"?—Yes.

12428. (*Chairman.*) They suggest the opening of a gold mint.

12429. (*Sir Maneckji Dadabhoy.*) I knew that, but I wanted Mr. Gubbay's independent views on the subject. You are not opposed to a gold currency, but you have stated that any change must come about slowly, and should not be forced upon the people?—That is right.

12430. How will you bring about the desired gold currency if you do not take some sort of action? You want ultimately, as I understood you, that the gold currency should come into vogue. How would it come about? As I understood from your answer to the Chairman, your contention was that the gold coin and the silver rupee for a number of years must continue to exist *pari passu*?—That is right; and I also said in answer to the Chairman that I would like to see the note convertible into gold or silver at the option of the Government. That is the method whereby I would suggest it.

12431. Taking the first part of it, how will you now effectuate the desired gold currency in some years unless you take some initiative now?—The primary thing I want to see at the present moment is gold going into India into the reserves so that the currency shall have a larger gold backing than there is at present. I do not like the existence in the currency of that balancing figure which we call the *ad hoc* Government securities. I think a stage will certainly be reached, if the seasons are favourable, when we should feel that we have got a sufficiency of gold to begin this question of circulation of gold in exchange for notes, or issue of gold in exchange for notes. That is a step which I have in mind. It is no very great departure from what there has been in the past. It is simply a slow but definite application of methods which we used to adopt before. There is nothing spectacular or radical about it. In the present condition of affairs I do not like —I cannot explain why very logically—that figure of some 49 crores of securities which represent a figure to cover the deficit between what I call assets in currency and what are not assets.

12432. Till that has actually been replaced by gold you would wait?—Yes. I also feel at the present moment there is a possibility of suggesting that there is in Indian currency a certain redundancy, and that the circulation is probably a little bit too large. I cannot definitely say to what extent, but I think the 90 crores of silver will probably be gradually absorbed in the course of the next eight or ten years. I should like to see the presence of larger assets, of other assets other than the silver ones in the paper currency. We have got in it now a fair proportion of sterling securities which are assets, and we have also got a certain amount of gold, but we have still got that 49 crores, which is what I call the balancing figure. I would like to see gold come in until that figure can be reduced. I should even like to suggest that it would be a good thing if it were possible to contract the currency so as to bring that 49 crores down to something more reasonable. The currency system under which I was brought up was one in which there were, I think, 12 crores of Government securities. I think I am right in saying that they represented securities bought off the market, representing assets of value. We have gone beyond that under stress of the war and other conditions subsequent to the war, and we have now got this gap. In other words, you can say that if you were to put it in the form of a balance sheet, that represents goodwill, and you want to write off your goodwill.

12433. In other words, it comes to this: that your opposition is not really to gold currency, but to the way in which it is proposed to be done?—I have never said that I had any opposition to gold coin if the people of India demand it. I think they have a right to demand what they want, and I think they have a right to see that they get what they want. All I object to in this scheme which I have seen here is that it is suggested in order to introduce a gold currency there should be a call on the gold reserve elsewhere, not for a fruitful purpose, but for a purpose which will be achieved in time, and which can be achieved without dislocation at all of other people's arrangements. I think it is probably questionable whether one would meet with anything but hostility, so to speak, to the proposal that there should be borrowings or credits which are physically to be removed in gold and to be ultimately liquidated by selling silver. I do not see any point in that scheme, which appears to me to have no attractions at all from anybody's point of view—neither from the Indian point of view nor from the point of view of the outside world. I think there is no question that such credits as India possesses at the present moment in the international world could be liquidated into gold, and nobody would say that you had no right to liquidate them and ship the gold to India. But when anybody comes forward and says to the rest of the world: "Now we have a scheme whereby we want to slaughter some large quantity, some unknown and indeterminate quantity of silver—why? because we want to go on to gold, and we want you to assist us to do it; what are your terms?" well, I imagine those concerned would simply say: "We are very sorry, but our terms are such that it must cost you a very fabulous amount." I have never opposed the suggestion that we should look to putting gold into circulation in India. It has been the consistent policy of the old Finance Department to give what people require, and to attempt to give gold if gold is required; but not to force it and not to endeavour to do it at the expense of other people's arrangements.

12434. Other people's arrangements will not be affected inasmuch as the scheme is for a gradual dislodgment of the silver in ten years' time?—Yes; but the dislodgment of the silver is to be preceded by an arrangement—if I have understood it correctly—whereby notice is given, or will be implied in any scheme, that all the silver that India took is to be replaced by gold. I say if I am a holder in India of silver or rupees, or hoards of silver rupees, if, for instance, I were an Indian prince, who has silver in his hoards, what is my natural action under such conditions? I should say at some time or other, in ten years silver rupees will be no longer legal tender, and I must necessarily protect myself.

12435. Quite so?—The first result might be that you would have an extraordinary stringency of

currency and a famine of currency, because everybody would simply throw back all their rupees, if my anticipation is correct, and say: "We do not want any rupees. We will take the minimum amount that we need."

12436. Then the Government have to fall back upon the 90 crores in the currency reserve?—I do not know about that 90 crores of the currency reserve, because, as I suggested to you, some of it might be redundant for the moment.

12437. You do not think that will be sufficient? —I do not know. I am not prepared to give a definite opinion as to what would happen if it were generally known throughout the country-sides of India that the silver was going to cease to be of legal tender at some stage or other. I can conceive that it might shock them absolutely into the most desperate methods to protect themselves.

12438. But some quantity of silver coin will always be required for internal circulation?—I say that you would probably have at one stage a famine of currency, followed by very special remedies to meet that famine of currency. Until adjustment had taken place in the people's minds as to what they could afford to lose in the way of silver, the first impulse would be to say: "Well, let me get rid of my silver."

12439. Those are your apprehensions. You also stated in answer to the Chairman that you would like the issue of gold coin to be made as far as possible at the option of the Government, but not as a legal obligation; and you would also like to see sovereigns and gold coins circulated side by side with the rupee. How is this possible? Will you sketch out a scheme by which the Government could issue gold for rupees at their option?—Yes, I can give you a very rough outline. Where gold coin is known to be a coin which is acceptable, we might begin by putting the gold into circulation there. I would not think, for instance, of attempting to put gold coin into circulation in parts of India which are known not to use gold, and cannot be expected to use gold—for instance, in the Hill districts and also in the Jute districts in Bengal, and possibly in other parts where silver has a more rapid acceptance for some reason or other than gold. In the Punjab and in Gujerat, and in parts of Northern India, where gold has been readily acceptable. I should begin to put the coins out there. You could not definitely mark out on the map particular sections, but you would have experience of the past to go by. There I would endeavour to meet the requirements, and to instruct those who are in charge of the function of giving metallic currency out in return for gold, to meet the demand for gold, if a demand set up for it.

12440. In addition to mapping out circles, would you also limit the quantity?—No, I would not do any limitation in quantity, in the definite sense of saying that there shall be no more than a certain amount of issue; but I would say to the extent that you could on a particular day meet all requirements, you should meet them and then proceed to replenish yourself from where you can get it. Just as here in the old days, if you went to cash a cheque for £20, you would be asked whether you wanted it in notes or in gold.

12441. Would you also go a step further and give the Government an option of giving sovereigns for gold bullion?—You are coming back to the same point that you made before.

12442. Yes?—If ultimately when you have got your reserves strong enough you feel that you could suitably then say that you would like to receive gold in exchange for gold bullion, and give gold coins out at the Mint in exchange for it, I should be prepared to see that; but I do not regard that at the present moment as a practical possibility.

12443. Just a few questions about the Central Bank. In answer to the Chairman, you have given a picture of the Central Bank that you would like to see exist, and to which all duties would be entrusted, and which would be in a position to work very independently and perform its functions freely in the sole interests of the banking business. It is an ideal with which I quite agree, but you will admit that it is not possible in India for many years to attain this ideal?—Yes, I think it is going to be a very slow growth.

12444. What year did you leave the service?—I left in 1920.

12445. As I understand, you also had some share in the framing of the Imperial Bank Act?—Yes.

12446. This bank has been in existence for the last five years?—Yes.

12447. And so far has performed its duties very satisfactorily. I am not aware of any serious complaints being made by any bank, or any other body of people, that it has not carried on its work very satisfactorily?—Well, I do not want to raise these questions unless you are going to lead me to them; but I would like at this stage, if you would allow me to do so, just to say this. I say it with very great deference, and I hope there will be no misunderstanding in what I am saying at this stage. Sir Norcot Warren will bear me out in what I am saying as regards the origin of the Imperial Bank, because it was he and his two colleagues, who are now dead, who met me at lunch one day during the war, and I was commissioned by Government to put certain facts before them which had come to our knowledge. I said to Sir Norcot Warren, to Sir Robert Aitken and to Sir Bernard Hunter that the time appeared to me to have come when it was necessary to consolidate their interests, so that there should be no attack on them possible after the war. At that time we did not quite know what the future was going to be in regard to the Imperial Bank. We just necessarily had to work experimentally. I remember very distinctly, and I think Sir Norcot Warren will bear me out, that one of the possibilities I had in mind when this was created was, that the Finance Department of the Government of India should be strengthened by being able to say, in regard to any suggestions on questions of banking or finance or exchange or currency from outside, that they had the definitely expressed view not of different institutions, but of one institution which had the control and regulation of the financial arrangements in India. I said to them: It is bound to occur that the Governor and the Managing Governors of the Imperial Bank will have to stand up to the Government, if they think that the Government are taking steps which they regard as likely to endanger, or to be inimical to the general requirements of the country. I say of that function of the Imperial Bank, I have seen no evidence whatever that it has been or is being discharged. That is the only thing I can say with all deference, as one of those who conceived the Imperial Bank, that it has not discharged that function.

12448. The Imperial Bank has not discharged it? —No, because I feel very strongly that on this question of the hundis the Imperial Bank should have said to the Government: "This is not a right and correct policy."

12449. Were opportunities given to the Imperial Bank?—I am not criticising it.

12450. Can you tell me whether such opportunities did come and the Imperial Bank did not use them?—No, I cannot say that.

12451. I was leading you up to this. A state of absolute perfection is not possible in India for years to come, in securing the existence of a Central Bank in India; it is not possible, because there are not many private banks in India yet, and there is not a network of banks; and unless there is a network of banks, such a scheme is not possible: but have you any objection to entrusting the issue, or working of the note issue to the Imperial Bank, as the agent of Government?—I should expect, if the Imperial Bank was going to function according to the conception which I had of it when I helped to bring it into existence, to find the Governors and Managing Governors reply to the Government on this question thus: "We will not do this business, because it is not right that you should expect us to do it. It is not right from the point of view of India as a whole, and from the point of view of the financial interests of the country, that we who are engaged in branch banking, as a bank of deposit, as a custodian of Government balances, should take on all these commitments which you are throwing on us."

12452. Do you think the proper performance of its other duties is in serious conflict with the obligation of carrying out the note issue?—I spent four years in which every day was devoted to just one portion of the many duties which you have in mind. My business was the management of the currency. I found that did tax me quite sufficiently, and I think that nobody will say that my capacity for work was below that of an average man. You asked me that quite frankly, and I tell you quite frankly. I say it is beyond the functions of any one man, or any two men, to discharge efficiently what you are endeavouring to put on them. That is on the human side. May I go on?

12453. Certainly?—But as a matter of principle I think the commitments which are to be taken in this direction, namely, the management of the paper currency, and also of the remittance operations of the Government of India, and also of the commitment which is implied in the last sentence in (f): "The bank to undertake to keep the Secretary of State supplied with funds to meet the sterling charges of Government," are such as, in your responsibility to your shareholders, you should not undertake them. That is from the point of view of your shareholders. From the point of view of the whole banking system in India, I feel there is the gravest danger of insecurity, by heaping all functions of this kind on one institution.

12454. I am assuming now that this proposed transfer will also involve taking up bodily the whole of the establishment of the Currency Department, and that being controlled by and placed under the Managing Governors of the Imperial Bank. How will that humanly, as you say, affect the proper execution of those duties?—Well, I do not think any Managing Governor of the Imperial Bank would take that additional duty on without the gravest hesitation. The risk would be too great. One or other of them would have to devote himself entirely to these duties and no others, or he would have to let the work be done in such a way that he could not justify particular actions or particular policy, because he would not have had the time or opportunity to look into it. That is my feeling about that.

12455. I know your views on the subject, and I will ask you one or two questions in connection with this aspect of it. Assuming that the management of the Currency Department is transferred to the Imperial Bank as regards the note issue, I would like to have your advice in the matter—especially as you have been long connected, and very creditably connected, with the Finance Department—whether you would think that this note issue should be in the name of the Government of India or in the name of the bank, and if it is issued in the name of the bank, whether the credit of the Government would suffer in any way?—We have assumed for the purposes of your question that it has been decided that the Imperial Bank is going to assume responsibility for the management of the note issue?

12456. Yes?—You are not quite certain in your mind whether you wish to make them responsible for the convertibility of the note issue?

12457. No?—Is that a question?

12458. Before it comes to convertibility.—In that case, if the notes are not to be inconvertible, and the responsibility for the convertibility of the note issue is to rest with anybody else than the Imperial Bank, then it can only be a Government of India note. If you propose that the Imperial Bank should take on the responsibility of converting these notes on demand, then they must be Imperial Bank bank-notes. I do not see any alternative. You cannot both eat your cake and have it. That is what I feel. I am not a shareholder of the Imperial Bank, but from the point of view of the shareholders of the Imperial Bank, I would say: "Are you going to assume responsibility for keeping the note issue convertible?" I do not know what Sir Norcot Warren would say. I remember quite well at the time, when we had difficulties and did not know what was going to happen, that he had a feeling of satisfaction that the responsibility rested on somebody else. That is why I say the Managing Governors of the Imperial Bank would have to think twice before they accept such a liability.

12459. Finally, am I right in concluding that your angle of vision in matters of currency and finance and exchange and banking has been considerably modified or broadened since you left the Government service?—That is a difficult question for me to answer, if I have understood that aright.

12460. (*Sir Maneckji Dadabhoy.*) I will leave it there.

12461. (*Sir Rajendranath Mookerjee.*) In paragraph 5 of your memorandum you seem to express a doubt whether a full-valued gold coin will be generally acceptable in India. Why do you make this statement? Do you know of any other country where a full-valued gold coin has not been accepted?—Well, I only put that in in order to protect myself, because in some places in India when I tried to bring in the gold coin at the time when rupees were insufficient I simply found that the gold coin, as I answered the Chairman, was not so popular.

12462. We had gold coins in circulation in several parts of India and also in reserves?—But there are other portions of India.

12463. But we had the gold coins in circulation and these were always accepted?—My point was, that if a gold coin was issued, it at once set up a demand for its being converted into silver coin of some kind. There are places in India where my experience suggested that it would not be generally acceptable.

12464. Does it matter if it would not be used generally?—I think it depends on the localities. As I have just explained in answer to Sir Maneckji, there are parts of India where a gold coin is more readily acceptable than in other parts.

12465. It has been stated by many witnesses that silver hoards are a troublesome factor in the introduction of gold currency?—Yes.

12466. You said in your evidence before the Babington-Smith Committee that many of the large silver hoards in the Indian States were exchanged for gold by the Government?—I do not follow that question.

12467. You said that from April to June, 1918, the device of exchanging the gold holdings of the Government for silver hoards in the possession of the Indian Chiefs and Princes was resorted to to a large extent?—I said that.

12468. Can you say to what extent it was done? Can you give me any idea of the quantity?—No, I do not know that.

12469. You cannot give us any figure?—I cannot get any figure at all. I never could. During the war, when I was desperately short of silver, we endeavoured, and did succeed in many cases in getting the silver rupee.

12470. But silver hoards were converted to a large extent?—It is very curious how it worked. I remember in one particular case the obligation of re-converting them into silver was maintained by the particular Indian Prince to whom we went. He said : "Well, I am very glad to let you have it. I will take gold; but please remember if I prefer to have it back in silver I must have it."

12471. Your estimate of the holdings of hoards of silver was that it was more in the States than among the people?—I think so.

12472. You cannot say to what extent?—I cannot say at all. I should say you would get some estimate in some sort of way from those banks which are situated in the States. I do not know whether the Imperial Bank's Branch at Hyderadad could give you any evidence, or any indication of the amount of silver which was held in Hyderabad; but I always conceived that it was very large.

12473. It has also been brought to our notice that if a lot of silver were thrown on the market by India it will be an ungracious act on India's part inasmuch as the United States helped us with silver, by the Pittman Act, when India was badly wanting silver?—The proposition amounts to this : that a good portion of the silver that we bought from America should be replanted back on them.

12474. You were asked by the Babington-Smith Committee whether it would be true to say that "America, failing assistance (in regard to export of goods from India), was obliged to come to terms with us over silver in order to get rupee credits in India." You replied Yes, so that it would seem that there is no moral obligation on India to help America, because they helped us in 1918 with silver?—The position during the war was this. After America came in on the side of the Allies, she was a big buyer of war commodities, and she had to have credits opened in India. We used that argument to point out to them that we were simply exchanging commodities for their holding of silver; but I think I am right in saying that the authorities in Washington demanded—I think it is among the papers of the Babington-Smith Committee—a statement by the responsible officer in charge of the Currency Department as to his apprehensions in the event of the note issue being inconvertible, before they would part with any silver. I know I was called upon over a week-end by the Finance Department definitely to set out a reasoned statement which Lord Reading, who was then in Washington, and Sir James Brunyate said was required by the authorities at Washington to go out as a signed statement from the Government of India's Controller of Currency. They did not want any addition to it. They just wanted his definite statement that silver was necessary to prevent the note issue from being inconvertible; and it is among the papers you will find with the Babington-Smith Committee's Report.

12475. In one of your answers before the 1919 Committee you said "We owe it to the people of India to try and give them some means of escaping from the present domination of silver." That was your statement, in 1919. What is your objection, or what is your view now on this point?—I have no objection, and I still maintain that view. The whole evidence I have given is for the purpose of carrying that out—that ultimately they would no longer be under the influence of that factor.

12476. If you want India to escape from the present domination of silver, that means gold currency?—I say ultimately we must get on to something like gold currency. I have not wavered from that.

12477. (*Sir Alexander Murray.*) You have already been exhaustively examined on the question of the Central Bank. Am I right in assuming that while your ideal for India would be a Central Bank, under present conditions you do not think that the time is ripe for the Central Bank?—I suggest as regards the Central Bank that the problem should be segregated from the other problems which are being considered by the Commission, and that you should suggest that a Central Bank is a desirable thing in itself, but that the question needs local investigation and thorough sifting before you can set it up.

12478. In plain words you do not think the time is ripe nor the conditions suitable for the institution of a Central Bank?—I do not think that the time is ripe until decisions on other questions are taken. My point is that our knowledge is limited—our knowledge of how it should be actually translated into practice is by no means complete. There are these kinds of questions to consider : the capital of the bank, the extent to which other banks should be required, or should be given an opportunity to take a share in it, the means whereby the bank should employ its funds, the delimitation of its functions as between the Imperial Bank and itself, and a whole heap of similar questions—the liquidity of the investments in which it should employ its funds and similar matters. There are a whole number of these things which cannot be exactly answered straight off and they must, I consider, be thoroughly sifted before you can say that you can bring the bank into existence. If you had all those questions answered and you were satisfied that they could be answered, and you also had your personnel in existence, and the functions of the bank *vis-a-vis*, the Government also were drawn up, I think you would put it in force the moment you settled your other questions because the primary function of a Central Bank would be undoubtedly to buy and sell gold for the purpose of maintaining exchange.

12479. If the Commission formed the opinion that further inquiry was necessary, would you be satisfied that the conditions should remain as they are now so far as the Imperial Bank is concerned?—So far as I can see if you set up a Central Bank some change in the character of the Imperial Bank will follow necessarily.

12480. And if we do not set up a Central Bank? —If we do not set up the Imperial Bank you must continue with the Government doing those functions of the Central Bank which it now dis-

charges, and the Imperial Bank would continue doing its functions so far as it does discharge them without the addition of the management of the note issue, and without any liability for the provision of the sterling requirements of the Secretary of State. Other questions which will arise will be how the remittances of the Government of India should be effected, whether as at present, or whether under some modified system.

12481. What are your own views on that point?—My own particular views on the question of the remittance operations of the Government of India are that I do not like the present system of purchases of sterling in India, not because I object to sterling being purchased in India as such, but because I think the Government requirements should be put up to competitive tender. I have been rather worried, well, not worried, but concerned, to know how the allocation of such purchases of sterling in Calcutta—I am not talking as between Calcutta and Bombay, but in Calcutta itself—is distributed among the different banks. So far as I can make out the decision under the present system lies in the hands of the brokers.

12482. Can you substantiate that in any way?—Yes, I can substantiate it in so far as I have heard it from my own people out there. It is dependent upon the broker bringing you what the Imperial Bank wants to purchase.

12483. Is it not general knowledge when the Imperial Bank is a buyer on behalf of the Government of India?—I think it is general knowledge that the Imperial Bank has been a buyer—I mean the time between when he is a prospective buyer and the time that he has bought is a matter of seconds or of minutes.

12484. Have you any particular instance in view where a particular bank has complained?—I am making no complaint. I am not using my appearance here before you for the purpose of bringing out any particular domestic question, but I am quite willing to answer on this point. I have not come here for that purpose but I only wanted to put before you what my experience is after four or five years on this side of the business. This is one aspect of it. There has been a new system introduced in India, namely, the purchase of sterling and I have found that there are these difficulties and I have always wondered how they were got over. It so happened that my Calcutta manager was over here last season and I asked him: "How do you get your sales of sterling to the Imperial Bank?" He said: "Well, sometimes I can do it direct, but I do not think it is a good thing for me to do because it offends the broker and I might not get it on another occasion."

12485. That is the whole explanation of the broker being employed by the seller?—Yes. My point is, as it seems to me—I am telling it to you quite honestly—that the decision is in the hands of the broker. You know quite well in your own business experience that a broker can bring you business and need not bring you business.

12486. That is very likely true if you wish to employ a broker?—If you do not employ a broker and you alienate him he does not bring you other business.

12487. That is true?—Therefore the decision is dependent on which side the broker thinks his bread is buttered.

12488. As a matter of fact you can do your business with the bank direct without employing a broker at all?—Yes, but on another occasion when the bank is employing a broker you may not get the business and you will not get other business if you leave the broker out. This is only a particular application of a general proposition. The general proposition, to my mind, is that the requirements of the Government should be put up to tender competitively, and I feel that you must not exclude London at all because I think there is a big rupee market here which has been growing for some time. It is a central market, and it is the best thing where there is a central market to be in it and not to be outside it. Also there is quite a demand for rupees in New York—and New York functions mostly through London—not directly out there in India, but through London—and that demand cannot be brought into play under the present system because New York is not directly represented in India and, therefore, that particular form of competition is denied to the Government under this system.

12489. While we are on the question of Government remittances will you deal with the question of reverse councils?—Reverse councils there is no question about. Reverse councils must be done over there.

12490. Would you be in favour in future of making the contraction of the currency a statutory obligation?—Yes, I would like to see that done very much. A great deal of our difficulties in the past which I referred to at an earlier part of my evidence would disappear.

12491. You would not accept the statement we have heard from a previous witness that the extent of possible contraction at any given period of strain would be determined not so much by the strength of the sterling reserves as by the capacity of trade and business to stand the strain?—No, you cannot go through a period of purging without some amount of discomfort whether it is physical or in matters of currency. The unfortunate thing is that this discomfort in the past when it did arise, used to be attributed particularly to the operations of one or more individual officials. If you put it on the basis of statutory prescription, the dose will be taken and complaints as to the discomfort will be limited or will be accepted as inevitable.

12492. You would make it absolute?—I would like to see it absolute.

12493. You would have nothing in the system as it may be devised in the future corresponding to the suspension of the Bank Act here?—No. Emergency measures must be decided upon and taken at the moments of emergency. One of the most salutary lessons which I ever received from my old chief was when I asked him to get prepared a bill whereby I should be relieved from my liability to meet notes. He declined to do it. He declined even to see it put on the stocks. He said: "I can get it done in six hours if the need is there, but you are not going to get me to make any of my preparations in advance because this will disarm you and take away some of your confidence in yourself." It was a very salutary lesson to all of us.

12494. Reverting to 1920, do you think it would have been possible if we had a statutory obligation in existence then to have contracted the currency to the extent of the full value of reverse councils?—No, because the Government of India then was financially not capable of meeting its own obligations on its Budget.

12495. I appreciate it was difficult, but it left its gold standard reserve untouched at that particular time?—It did.

12496. Why?—Well the decision with regard to that point was taken in June or July, 1920. I think the answer to that was that some of us did not dare to face the trouble that we were told was

going to arise particularly in Bombay by a high bank rate. I think it was 9 per cent. at that time, was not it? That was the long and short of it.

12497. As a matter of fact when those reverse councils were being dealt with in 1920 there was not a contraction of the currency?—There could not have been because as fast as we contracted there were maturing a whole host of Treasury Bills. Looking back to the report of the Babington-Smith Committee I very distinctly remember a conversation which took place between Sir Charles Addis and myself. He said, when we were discussing this question of how it was that everything had gone wrong, that none of us—and he was quite right there—had taken into account that there were maturities of Treasury Bills which at once made it impossible for the Government to make any effective reduction in the circulation. If the Government's financial position at the present moment were not so strong I think you might have to consider a similar difficulty. Remember that we had then in the hands of the public, I think, 100 crores of Indian Treasury Bills, all of which could mature just exactly with the same effect as would be felt here if all those who held British Treasury Bills in London were for any particular reason forced or desired to convert them when they matured at the rate of, say, £5,000,000 a day into cash at the Bank of England and took the cash out in gold. Within 30 days they would probably wipe out all the gold now held here.

12498. We have had it in evidence that it was fear of the consequences on trade and commerce generally that prevented the Government from contracting the currency in 1920?—Well, personally my recollection to-day is—and I have to talk of things six years ago—that we considered it very carefully and the decision taken by those who had to take the decision was that they were not prepared to see the high bank rates which would necessarily be brought about by contraction of the circulation.

12499. In connection with the question of emergency currency, you differentiate between the currency issued against the jute, cotton and wheat purchases and the normal expansion of the currency that is always going on? Do not you think it advisable to do something that would really create a discountable bill market?—Yes; but do not let us call it "emergency issue."

12500. Let us call it seasonal?—An emergency issue is an emergency issue; that is to say, when an emergency has arisen threatening the country as a whole.

12501. I used the wrong word. Let us call it the seasonal demand that brings on a demand for currency in India, particularly for cotton, for jute, for wheat and for rice purposes?—Yes.

12502. As you know, the Imperial Bank and the Government of India in particular months have to send 20 crores or more up country for cotton. A little later they have to send up another 20 crores for jute, and sometimes more than that. Later on they have to send 10 crores to Burmah to finance that crop. In view of your long experience in the Currency Department, and since then as a banker, can you suggest any means whereby self liquidating bills could be created against that particular business?—I have thought about it, and the more I think about it the fewer I find of self liquidating bills in India, and I do not see how to create them. I do not like the idea of an expansion of the currency to meet any other requirements than a real emergency. That is one point I should like to make.

12503. May I put it to you in this way? You told us that at certain periods of the year money in India is unloanable because we cannot even get a half per cent. from the bank, and at other times it is unborrowable, and practically we cannot get it without paying 8 per cent. or 9 per cent. In view of that do not you think it is desirable that we should try and find some means of meeting this seasonal demand?—I suggest that the only way to meet that is that you should attract funds into India. I admit that it does not solve the whole problem because you can take me on to the next point that we might then get bank funds in India which are not convertible into the particular form of currency which people need. One of the difficulties, at the present moment, in getting funds into India is the uncertainty as to the rate at which you can bring them back. If you have to rely entirely on an exchange operation both ways, naturally you have to pay in the rate for the advantage of being able to employ your funds out there, so that does not help very much. I do not believe the trouble would be so great if you can get funds out there in the form of gold and we have the gold points fixed. Then you would get much greater elasticity in the matter of funds going out to and coming back from India.

12504. I agree that you can get the funds out to India, and I agree that the banks have special facilities for bringing out money, and it is their business to bring it out and utilise it to the best possible advantage. But in the particular conditions of Indian trade, where you have at one moment money non-loanable even at half per cent., and at the next moment you are paying 6 per cent. or 7 per cent. for the use of money, do you not think it is a pity having money brought out and money sent out again?—No; I think it is a natural thing.

12505. You do not differentiate between Indian conditions and other conditions?—I recognise the peculiar difficulties of sending money up-country to bring goods down, and that a particular form of currency is required for this purpose, but I do not believe in any other methods than of bringing funds into India to create the necessary internal credit.

12506. Therefore you are definitely against the creation of a system of self-liquidating bills against the seasonal requirements with regard to cotton, jute, and wheat?—I thought it could be possible to do so, as we thought on the Babington-Smith Committee, by a system of allowing export bills to be taken in as cover. Although I think it is less objectionable, it probably is not practicable, or it is only practicable to a limited extent. We have had a curious position in India which both you, Sir Alexander, and others on the Commission will be able to bear me out in, which is that at times when we have had a very strong demand for rupee exchange there was not the same repercussion in the money market. There was a demand for exchange rather than a demand for funds. A large amount of the sales of sterling to the Imperial Bank did not coincide with a time at which money was stringent in the sense that you had very high rates, but simply there was a very strong demand for exchange just as a covering operation. There was no freedom in the exchange because of the uncertainty. Probably this would disappear when you have got a more stabilised system. The point I want to make clear is this. It is rather counter to what we used in the Finance Department to observe—the rise in the rupee exchange has always been coincident with a rise in the value of money. We used formerly to see, while money was tight, a rise in exchange; and we used to say: "Exchange is rising, and therefore money is tight, and is going to be tight," but I have not found that

so much of latter years. I find a demand for exchange, but not necessarily high money rates for temporary money—for call money, or weekly money, or monthly money.

12507. (*Mr. Preston.*) You say in Section 8: "The primary objective should be to attract gold into Indian currency, under whatever system it is to be operated." You also have been good enough to express your opinions on the gold standard system which the Government of India has submitted to you, and you have told us that it did not appeal to you?—Yes.

12508. I would like just to suggest a simple and automatic system of a gold standard leading to gold currency for the purpose of seeing whether it would meet with your approval. The first postulate would be unrestricted import of gold at the upper gold point, and unrestricted export of gold at lower gold point or equivalent gold funds. Would that meet with your approval?—Is that to be statutory?

12509. Statutory?—I should like to see a statutory obligation on those lines.

12510. Absolutely statutory on both sides of the book?—You would have to provide in any statutory provision on the subject that there should be an option to provide gold exchange or actual gold in exchange for Indian legal tender.

12511. At a time of weak exchange if the bank applied for what we call Reverse Councils, they would naturally take gold funds—we would not want to take the actual gold?—Yes; I think that is quite a suitable arrangement.

12512. Then No. 2: that Council bills which form a very important and rather particular section of our Indian currency system—a peculiar portion of our Indian currency system—should only be sold to the actual extent of Government requirements?—On that point I should like to enlarge a little. I do not know whether it is possible in any way now, by reason of the many changes which have come over the administration in India and the administration here, but I would like to suggest that possibly such of the contracts as are let in this country by the authorities for supplies going out to India on Government account should be quoted for in rupee currency so as to eliminate the extent to which Government need intervene in the exchange. I feel that if the Government could definitely give a definite figure in their Budget for their charges on account of the service of their sterling debt which is capable, I take it, of being carefully or accurately estimated, and also on account of their pensionary and leave commitments which, I suppose, are also capable of some kind of estimate; supposing then we could get a definite figure in the Budget for those, and the Government did not exceed that figure, then the rest of the requirements of exchange at a time when the rupee is in demand should be met, as you suggest, by the flow of gold out there.

12513. Then No. 3 is: "Legal tender of rupees not to be disturbed"?—Well, I have already indicated that I do not view at all with any favour the disturbance of the rupee.

12514. Then if Council bills are only sold to the actual requirements of the Government the position would be this. Having an unrestricted inflow of gold for all currency requirements above and beyond after the Council bill requirements have been met, they would be obtained through the paper currency reserve, thus providing a steady annual inflow of gold into India. Would that meet with your approval?—That would meet with my approval. I quite agree with that, but at the same time, as I say, you should have a statutory obligation for Reverse Councils. I should be quite content then because we should be providing for the currency to be contracted as well as for the currency to be expanded.

12515. In either case, it must be absolutely statutory?—Yes.

12516. No question of any departure from unrestricted or unlimited import or export?—I quite agree.

12517. Perhaps the next point is getting on to a matter which, so far as this morning is concerned, we have not yet touched upon. In any gold scheme, naturally, we have to arrive sometime at a parity at which we are going to place our gold coin. As soon as the new parity has been decided upon the value of the gold and the sterling securities in the paper currency reserve to be written up to the same new parity and a sufficient amount of securities from the gold standard reserve to be transferred to the paper currency reserve to wipe out the present *ad hoc* securities. Would you kindly favour us with your views on that suggestion?—Well, I have already indicated to the Chairman, and in answer to other questions, that I do not like that balancing figure of *ad hoc* securities. If you regard the gold standard reserve as a part of the paper currency reserve as we used to regard it regularly for the purposes of seeing what reserves we had, it does not make very much difference whether you do actually transfer the gold standard reserve securities to wipe out the *ad hoc* securities. The point that I make is this—that the composition of the paper currency reserve must be in real assets. I do not like the *ad hoc* securities because they are not real assets. They are of no use to anybody at any time. At a time of emergency you cannot sell those things, and you cannot do anything with them. I know that I am very old-fashioned on these matters, but as I said in answer to Sir Henry, I would like to see a good, solid, almost full, metallic backing, or at any rate, full assets for your note issue. I do not regard the *ad hoc* securities as assets. I take it the *ad hoc* represent really, so to speak, the remains or the *debris* which have not yet been quite cleared away from the storm of 1920 onwards.

12518. Then if there is any balance remaining in the gold standard reserve that could be converted gradually into gold, and shipped to India?—Well, I would like to see that purely from the sentimental point of view. I do not think it is absolutely essential, but I think from the sentimental point of view, as indicative that there has been a definite understanding that the gold which India has is passing within her confines and will be under her own eyes, it will have a very solid effect, and would be an earnest that the problem is being handled from the point of view of the feelings that found expression in times gone by on the questions of India's gold reserves. To the more educated and more intelligent minds it does not make any difference, but it has a considerable effect in that way.

12519. The next postulate I have to state is this: that the full liability of establishing gold currency must not be undertaken before a fund of, say, 100 millions had been accumulated by these annual accumulations. What would be your views on that?—Well, I do not know that I can say the liability should be taken at 100 millions, or at any other point. I would rather leave it in a more indefinite form, and say at some later stage or other that issue of gold coin could definitely be assumed as a legal liability by Government. But for the moment, as I said in answer to the Chairman, I am only envisaging the problems of the immediate future. There I think it must be a case of the option of converting notes into silver or gold, the option to convert into gold being left to the Government.

If when you have 100 millions you think we can assume full liability for a gold coin circulation I should be very ready to see the liability taken. It might be reached before that stage if the hoped-for development in banking made it possible. It may not be reached by that stage, and you may have to wait till later.

12520. The next postulate is (and this is in connection with our present stock of rupees in India) to stop all further coining of rupees. Would you agree with that?—I take it no one would coin rupees if they have 90 crores.

12521. Having in view the large stock of rupees at present in the Currency Office, in addition to what is held by the Imperial Bank, the exchange banks, the indigenous banks, the shroffs, the moneylenders, and bazaars and others, and the considerable amount in the aggregate which must be presumed to be held in the custody of many thousands of industrial concerns operating in India, and thousands of shopkeepers and 90 per cent. of the population of India whose daily transactions must of necessity be by means of rupee transactions, assuming even a liberal amount of rupees in circulation there is no necessity whatever to contemplate the sale of any portion of the Government's present stocks which ought really to be looked upon as a necessary reserve for not too far distant requirements. Would that meet with your approval?—I have already answered that. I said I never wanted to see silver sold. I have also suggested that there may be a certain redundancy in circulation, but I hope that the stock of rupees will go into absorption gradually. I would not care to see any of them sold because I do not believe that we could do without them at some later stage. If you sell them you would probably have to buy them back. If you did sell them, I think, you would only sell a portion of your stock of rupees at the present moment if you thought your circulation was redundant. I would not sell them for the purpose of replacing them with gold. I would only sell them because for the moment you thought you had enough circulation in existence. If you have not then keep them. If you have a redundant circulation then you would sell them. I do not know whether price levels in India are balanced on the present amount of circulation. It is a question I cannot answer. But I do not feel that there is any reason for the wholesale selling of rupees.

12522. In pre-war days we used to look upon a stock of rupees of 20 crores as being about our minimum Working Reserve, did we not?—Yes.

12523. Assuming that the value of India's overseas trade is now 100 per cent. more than it was in pre-war times would it be unreasonable to assume then that we now look upon 40 crores as being a minimum working balance?—Yes. Of course you have to recollect also that the note habit has grown greatly and the cheque habit is growing greatly. All those are new factors. I know we used to make an assumption of what we thought was required for the purpose of having enough silver in hand to meet requirements. I do not know that I should be entirely guided by the principles of our past estimates, because I should have to weight them by reason of the change in the habits of the people and that weighting factor would necessarily have to be altered regularly according to the developments of the banking habit. Naturally you would not expect people in India to go on wanting rupees on the same scale as in the past. Personally, now you are on this question, I may say I very much regret the disappearance of the one-rupee note because it seemed to me that was undoubtedly a help towards people understanding what the cheque was going to be. The ordinary Indian in the country-side cannot work a cheque book—he cannot do it, and what we gave him in the form of a one-rupee note was really a cheque book.

12524. If we were to accept 40 crores as the minimum, and taking our stocks in India at about 75 crores, and if we accept an annual absorption of from seven to nine crores, and seven crores would be a low one——?—Well, I see that the annual absorption in the last eleven years has been nine crores. Mr. Denning's report says that the absorption has been at that rate.

12525. The bullion left with us in our present hoards would only provide barely for five years' consumption?—Yes. I think on that basis it is quite so.

12526. As prudent people you would not recommend to us any action such as had been suggested, to sell any portion of our present stock of rupees in the Currency Department?—I would not sell any portion of our present stock of rupees unless we have definite evidence that there is redundancy, and on that I say I cannot find any evidence so far.

12527. There are two or three matters on questions of detail which I want to put to you as they form part of the whole concrete scheme. It is suggested that Council bills should be sold by public tender in India, alternatively in Bombay and Calcutta, and also a portion in London. Would that meet with your approval?—As long as it is a competitive tender I should like to see it distributed between the two places. I still believe that London is a better place for it, but if you do sell them in India at a competitive tender it must necessarily be at one point.

12528. Then another is that the sale of Council Bills by tender might be undertaken by the Imperial Bank as agents for the Government?—You mean in the same way as the Bank of England tender here for Councils.

12529. Yes?—I think it is essential that somebody should do that. I would like to make another point with regard to the sale out there of the Councils. The Bank of England always make very certain that the India Office receives sterling before any instructions are sent out there to pay out rupees. I do not know how this is done under the present system. Do they part with rupees before sterling is received?

12530. (*Chairman.*) We are told that the rupees are given out before the sterling is received.

12531. (*Sir Purshotamdas Thakurdas.*) Mr. Kisch made a point of it?—I thought it must be so. I cannot see how it can be done otherwise except by another system of telegrams—"Telegraph on receipt of so much sterling." I do not know whether that is done, but I know the Bank of England here were very particular and it was a cleared and accepted cheque or a cheque by the purchasing bank on its account with the Bank of England alone which they would accept, not a cheque which had got to go through to be cleared. It had to be cleared before they would issue the instructions here.

12532. (*Chairman.*) We have been told that rupees are given out there before the sterling is received here and that it is therefore necessary to exercise discrimination?—It is not a system which commends itself to me.

12533. (*Mr. Preston.*) The last point was that all notes in future should be retained as Government of India notes?—I have given you my answer.

12534. You have already expressed your opinion about that?—Yes.

12535. (*Professor Coyajee.*) I presume that your approval of gold currency is not based on the mere fact of a public demand for it in India, but on the potentiality of substantial advantages to India from it?—Quite frankly I do not think it makes any difference. I may be utterly wrong, but quite frankly I am only advocating it because of its convenience.

12536. I am only putting to you one or two arguments which have been advanced. It has been argued that with the introduction of gold currency our currency system will be more automatic and elastic. Do you think there are any potentialities in that?—Not from the point of view of gold in internal circulation. It can help. It certainly cannot make it less elastic or less automatic, but I do not look to it to give us any very great assistance. It will be an added support if we had a gold coinage in circulation to the maintenance of the rupee in external value, but I do not look to this so much for the support of the rupee in its external value.

12537. Then it has also been argued that the investment of hoards would be facilitated because the public confidence would be secured and the people will say: "Well, let us invest because we can get back the gold whenever we want it since it is in circulation"?—That is such an enormous question that I do not feel you can stop at that point. I think that gold comes into India because of a long, long tradition, and I doubt very much whether profit is the consideration in determining whether they will hold value in the form of gold, or in some other form.

12538. (*Sir Purshotamdas Thakurdas.*) In paragraph 2 of your statement you say that in your opinion "The Government authorities themselves wish to see reduced to a minimum their responsibility and their intervention." By "the Government authorities" do you mean the Government of India?—Well, I have no right to speak about any other although I was temporarily lent to the India Office—I am only giving you the atmosphere in which we worked.

12539. When you use those words you had in mind the Government of India?—Yes.

12540. What about the India Office—the Secretary of State? Do you also include him in "the Government authorities"?—I do not think I have any right to give any opinion on that. I should say that they too would also like to feel that these interminable discussions which used to pass between themselves and ourselves were done away with and removed.

12541. It would then, I take it, be a surprise to you if you heard at any stage that the Secretary of State was not of that opinion, and that he liked to keep up the right of interference in these matters in his own hands?—I do not know how to answer that question because Secretaries of State change.

12542. I am talking of the office, not the Secretary of State for the time being?—The policy may also be affected by individual Secretaries of State. There is no question about it that we used to be engaged in long and interminable theoretical discussions. I do not say that they have not got their use. I do not know whether the Secretary of State or the India Office feel that they want to have a power of official decision still in their hands. I should be surprised to find that they would like to see it continued on the present system, but I may be entirely wrong.

12543. You would consider it most desirable then that this should go out of the hands, not only of the authorities in India, but also of the authorities in London?—I would like to see it automatic.

12544. In the best interests of everybody concerned?—Well, I do not know that I can put it in the best interests, but it is the case that the exercise of judgment on such matters by three or four particular men at that end, or three or four at this end is not really a Government function.

12545. Therefore, it would be in the best interests of India. Do you think there could be any reasonable objection from the point of view of interference with the statutory powers of the Secretary of State in this connection?—Now you are taking me on a constitutional question, are you not? I do not know the exact constitution now, but I have a recollection that certain questions like currency and exchange were reserved to the Secretary of State. Is not that so?

12546. Yes?—But I have never looked at it from that point of view. I do not know what the political implications are, or the non-financial implications are. I have only looked at it, as I always do look at these questions, purely from the point of view of working a system.

12547. You, therefore, feel that from that point of view it would be most desirable?—Yes.

12548. In paragraph 5 I think there is an omission in the copy that we have been supplied with, in the last sentence: "It will be only when the necessary conditions of general acceptability of such coin as an internal circulating medium" and there is something omitted, "that the stage of demonetizing the silver rupee could be safely entered upon."?—That is as I have it: "It will be only when the necessary conditions of general acceptability of such a coin as an internal circulating medium are established."

12549. Your hesitation in demonetizing the silver rupee only lasts for that period?—That is right.

12550. You would like, as you said in reply to Sir Rajendanath Mookerjee, to see the domination of silver in the Indian currency system disappear as soon as possible?—I would like to see the silver rupee go out of use.

12551. Or be substituted by gold coin?—So that when it has got in disuse you can register the fact of it ceasing to be in use and then cease to give it a legal tender character.

12552. May I understand what you mean by "going into disuse"? The silver rupee will always be required by the people of India just as the shilling is required here?—But in its use as compared with its present use.

12553. It would be used in much smaller quantities than it is at present?—That is to say, when you can find the cultivator and the producer are prepared to sell their produce and not to demand metallic rupees for it.

12554. But will accept notes?—But will accept notes and will accept coin, and will accept cheques and other things.

12555. "Cheques" is rather further off in India at the moment, but it will serve your purpose if they accept notes?—Yes.

12556. If you were told that during the last few years cultivators in certain districts, such as Khandish and Surat, refused to take silver and asked for five and ten rupee notes, would you look upon that as approaching the ideal that you have in view?—I am very glad to hear that; I hope it will develop still further.

12557. You said in reply to Mr. Preston that you are in favour of further coinage of rupees being stopped?—Yes.

12558. Do you not think our having a large supply of rupees in the Treasury at present is

a convenient coincidence for the purposes of the new system that you have in mind, namely, ultimately reaching gold currency?—Do you mean a coincidence as a matter of cause, or a coincidence simply in terms of time?

12559. In terms of time?—No.

12560. You do not?—No.

12561. When you say there should be no more coinage of rupees, you know that the people of India are getting accustomed to the use of more notes. We have in the Treasury enough rupees for the next five or perhaps seven years, and you feel that no more rupees need be coined for the period of transition. You do not think that is a rather useful coincidence?—Supposing you were not contemplating any extravagant change at all, supposing you were just dealing with it as we were in the old days, and we found ourselves with 90 crores of rupees, I should automatically say: "We will stop coining rupees; we have got enough now."

12562. Except that this enables you by statute to stop the coinage of rupees, leaving you with enough rupees for the period of transition and enabling you to give an indication to the people as to what you are finally aiming at—to that extent?—I do not like that. I do not like the idea of saying we are going to stop the coinage of rupees, because though the statutory provisions appear to us in discussion across the table here as perfectly understandable and reasonable, when they are spread abroad outside and known to the countryside it is perfectly possible for people to make capital—I do not mean any other capital than financial capital—out of the fact by simply saying: "Your rupees are useless," or "The Government has said they are going to stop it." Why are they going to stop the coinage? Because they intend to withdraw them altogether.

12563. Would people not believe that Government stopped further coinage of rupees because they had enough for several years, and after that proposed to give them gold coins?—They might equally say they are stopping coining because they are going to say the whole of the rupee circulation is useless, and are not going to put any more in.

12564. It is then, in your opinion, liable to misconstruction of that kind?—The most extraordinary views have been expressed, and you always have to guard against that kind of thing.

12565. (*Mr. Preston.*) Might I say that my reference to the subject of stopping of further coinage of rupees was more a departmental procedure?—And not statutory.

12566. (*Sir Purshotamdas Thakurdas.*) I understand that. I was only taking it a little further and finding out what Mr. Gubbay would say to a statutory prohibition. Regarding trade bills, you said that they did not exist at present. Supposing it is urged that trade bills do not exist and are not available in large numbers at present because the system is not in vogue and no facilities are available to the commercial community for the discount of trade bills, and further, if it is also urged that with a cheaper method of finance by means of trade bills being available, the Indian commercial community, who are not ignorant of the principle of bills, would take to it very rapidly, would you agree with that?—Well, on the question of the trade bills, we had an investigation made before I left India by Sir Edward Cook to get something of the facts, if we possibly could, before the 1919 Committee came into existence, as to what hundis meant. I always felt that nobody that I asked could definitely tell me that hundis could be referable to any specific commodity, or any specific quantity of a commodity which is changing hands. I do not know whether you can correct me on that; but that is my root objection.

12567. May I ask if the report of Sir Edward Cook that you referred to is available?—Yes.

12568. The report is printed?—Yes.

12569. In the Babington-Smith Report Appendices?—Yes. That is my difficulty about the bill. I conceive of a bill being referable to a specific quantity of commodities purchased by one man from another on which short finance is extended by a bank or discount house, who looks both to the names of the drawer and drawee, and knows that the goods are in existence. The goods are in existence; therefore the banker knows he is not helping any kite-flying, and he knows the two names, and he says: "They are good people." Then he puts his name on the back of it, and that will fly round everywhere as being an acceptable, negotiable instrument. It is short-dated. You know at once you can sell it on the cheapest possible terms. The better the names of the drawer and drawee the better the bill will be. As you know without my having to say so, a bank bill commands a better price in the market than a Treasury bill, for the sole reason that Continental purchasers of bills are precluded from buying British Treasury bills because there must be two names and they are big buyers of bank bills. That is a condition, if it could be brought into existence in India, where I should say that there was good cover available, but I do not see it yet.

12570. If such bills could be brought into existence you would admit, as you said just now, you would look upon them as quite good cover?—Yes.

12571. You mentioned in reply to Sir Reginald Mant two instances. You took, for instance, a man buying cotton in Surat and said that the merchant "cannot draw on the cultivator"—I wonder if you meant it, but I took down your exact words—why should he draw on the cultivator, who is the seller of raw produce to him?—Because he does not know him at the time.

12572. But the cultivator will require to be paid in cash in any case. The merchant may draw either on his buyer in Bombay for whom he may be purchasing, or he may draw, if he is buying on his own account, on a commission house in Bombay which is financing him?—And Sir Reginald then took me round and turned me over to the other side, and said instead of the man in Bombay drawing on the man in Surat, let the man in Surat, after the price has been fixed, draw on the man in Bombay and sell his produce.

12573. Do you not think that is feasible?—There you have the beginning of the elements of a bill. Then you have to support that bill with arrangements whereby the Surat seller of goods can discount it at once.

12574. Exactly?—Where does that exist?

12575. He discounts his sight bill at present with a bank or banker in Surat in order to get cash?—He has to discount that. Is that going to be cheaper to the man who buys the cotton than to take an overdraft and work under a system of cash credit, and take the silver up there and pay for the goods on the nail, because you must remember that the discount market in Surat is limited.

12576. The discount market in Surat would be a much more limited market as compared, say, with Bombay?—Yes.

12577. He gets the cash in Surat, and pays it to the cultivator—his seller? If there are banks at important centres like Bombay prepared to discount say, two or three months' bills, the commercial community would not be wanting to utilise

the facilities. Do you agree with that? I suggest to you that banks in Bombay have not introduced this system, and therefore the commercial community cannot use it. If banks said to themselves: Provided we know that a man has bought cotton or produce up-country and consigned it to another wherever he wished it, and these two persons have drawn a bill, and their signatures are respectable, and one of them holds the produce either for sale or consumption, we will accept such a bill, what do you think would be the hitch?—If that set of conditions were to come into existence I agree you would have very much wider banking activities.

12578. I know although you have been in India all along in an official capacity, you were in close touch with the commercial community in India. May I ask you if this system as I have put it is feasible, in the light of your experience?—Well, I would answer that in this way. This is one of the things which I should conceive should be the functions of, I was going to say, the Imperial Bank, of creating or calling into existence. One problem that you suggest now is can those conditions be brought into existence? I say that is the function of the chief banking authority, who should endeavour to create that kind of thing. One can see heaps of ways in which it may be done; but it has got to be tried before these bills come into existence. I say there is no sufficiency of bills for this particular purpose.

12579. At the moment, you mean?—At the moment.

12580. (*Sir Alexander Murray.*) As a matter of fact the Tata Steel Company and the Indian Iron and Steel Company do draw at 90 days' sight on buyers of their goods; and those are now discounted with the Imperial Bank in Calcutta?—That is an exact parallel case to what occurs in this country, because the goods have been manufactured, and the bills are immediately referable to the quantity of goods.

12581. That is a recent growth, but it is extending. I believe it is the case that sellers to the Government of India of materials are now drawing on the Government of India at 90 days' sight, and re-discounting with the Imperial Bank?—Yes.

12582. The practice has already begun, and it is only a question of development?—Yes, but not raw materials. In the case of raw cotton, raw jute, wheat, seeds and so on, there are many more problems than when you are dealing with manufactured goods.

12583. (*Sir Alexander Murray.*) That is quite true.

12584. (*Sir Purshotamdas Thakurdas.*) You are aware of the shroffs in Bombay, the Multanis and the Chetties in the south, who at present hold a considerable amount of bills on their own, and discount them again with the Presidency Bank, or other banks who may be prepared to discount those bills?—Yes.

12585. Do not you think that in these you have got the pioneer class for the discount houses which you say at present do not exist in India? They know the business. All that they want is the absolute assurance that the Imperial Bank or the Central Bank, as the case may be, will re-discount such bills?—Those are clean bills?

12586. Yes?—Then I say that is a different proposition.

12587. Is not the other the better security?—I do not know.

12588. When you know the other bills are against produce bought up-country, provided you trust the man's respectability, which is a point in either case, is not the other bill the better security?—Which do you call "the other bill"?

12589. The trade bill, when you know that the man has some produce as cover against his bill?—I think trade bills ever so much better.

12590. Would not the shroff class then take to it more rapidly than to clean bills?—Well, I could not answer that question. I should say if the shroff found that there were these bills in existence, I should be very surprised if he did not take to the business quickly enough.

12591. Therefore, you admit there is an organisation which may be developed to the usefulness of discount houses, which you say at present do not exist in India?—Yes.

15292. You have lately been at the head of the P. & O. Banking Corporation?—Yes.

12593. Can you tell me whether, during the last couple of years or three years, call money rates in Bombay especially—if you can tell me that—and in India generally have ruled in close proximity to the Imperial Bank rates?—Money rates.

12594. Call money rates have ruled within a per cent. or so?—I suppose so. I have seen cases when they have been above, and sometimes when the call money rates have been below. I think at the present moment they are below.

12595. What would be the variation between the call money rate and the Imperial Bank rate?—Did you say what should it be?

12596. What has it been during the last couple of years?—I have seen it down to 1¼ or 1½ per cent. below.

12597. That is about the maximum?—I do not know that I have seen it lower than that recently.

12598. Can you tell me whether, in lending call money in India, the conditions regarding the return of call money, when due, vary from those prevailing in London. If you lend call money in India, is it about as safe, provided you always select your party in the usual way, as if you are lending call money in London?—Well, no call money is lent in London without security.

12599. In India call money is lent and is received without security?—Yes.

12600. Have you heard of any failures or any lapses in the return of call money. Call money is lent to first-class parties only?—Yes. The point is that call money goes round from place to place. You may lend to-day, and you may not want to continue, and it may go round to somebody else.

12601. But the man who borrows it returns it duly?—Yes; but I want to make strongly the point that I do not think that the regulation in India is as good as it ought to be.

12602. How do you mean?—I think the principle of lending money on security is the only correct principle that we ought to go for.

12603. Call money should be lent on security only?—Yes.

12604. In India that money is available on more easy terms than here?—Yes; and therefore the return should be, I think, greater to those who lend.

12605. You said a Central Bank, or a Reserve Bank, as you visualise it, should have no Government Directors?—Yes. I said I should like to see no Government Directors.

12606. Would I be correct in inferring *a fortiori* you would not have the right of appointing Managing Governors to that Reserve Bank vested in the Government?—I have not thought

about that; but I feel that if the Government did not appoint their nominee, there ought to be some understanding that whoever is appointed is someone that the Government would agree to. It ought to be an understanding.

12607. You would have it with the Government's approval?—It ought to be at any rate as a matter of courtesy to the largest shareholders—he should have some voice.

12608. You are not in favour of giving the largest shareholders any representation by way of directors on the board?—What I feel is, I want the policy to be independent; and, therefore, that nobody's nominee should be dependent upon being able to secure the assent of those whom he represents. I can conceive there will be cases in which there will be a conflict, and it is necessary and desirable that he should be able to stand up and say: "Well, that is my view. I am going to see it through. If you do not want to see that view through, then you had better get somebody else. He ought to be able to maintain his own views independently, and use his own judgment.

12609. Would you, therefore, have the Managing Governor's appointment dependent upon the Government's goodwill, or would you not?—No; but I think prior to his appointment his acceptability might be put to the Government, or ought to be, because he will be in close touch with the Government. He ought to be somebody who you will know will work with the Government Department, and is not for any particular reason somebody that they do not want to see. They might have good reasons for it. It is simply and purely a question of harmony; but after he has been appointed, I do not think his retention should be dependent upon the goodwill of the Government.

12610. Would you make the approval of the Government a condition of his appointment?—Do you mean statutorily?

12611. Well, I meant statutorily, or otherwise by agreement. Suppose the Central Board wanted a particular person, and the name was suggested to the Finance Member, and the Finance Member said: "No, I do not think you can have this man," and the Board unanimously thought he was the right man, what then?—The English practice in a case like that is that you should rely entirely on tact and compromise. I do not like relying on statutory provisions in these matters.

12612. I take it you are prepared to have a compromise in that case by meeting each other half way, and selecting somebody else?—I do not think it is a question of meeting half way. It is a question of persuading one side or the other that he is not suitable, or that he is the most suitable man.

12613. Or name somebody else?—Or name somebody else who is equally suitable.

12614. Regarding rupee tenders, in reply to one Member you said you would have tenders called for by the Government of India payable in rupees?—Yes.

12615. That is for the purpose of reducing the liability of the Government in India to make sterling available at this end?—Rather for the purpose of eliminating uncertain factors in the Government amount of remittances at home. You can determine your liability for sterling requirements on your debt, and you can always determine your liability to Pension charges and Leave charges, and other things. In the case of the great bulk of purchases of railway material, and other things which the Indian Store Department do under the High Commissioner, you cannot determine when the goods are going to be delivered, and you do not quite know what provision to make in the Budget. Also I know there are a large amount of charges, like weapons, ordnance and artillery, which are required for India, which I understand are still done here by the India Office, and not by the Office of the High Commissioner. I was anxious to get somewhere nearer finality to any figures which might be put in the Budget for the amount of remittances, so that we know what amount has been budgeted for, and that this amount of sterling has been purchased, so that we who are engaged in business in India will know there is no more relief to be obtained from that source when the exchange is rising, or if there is a weakness in the exchange, there will be no more sources of weakness coming in in that way; and then we should go on to do the other necessary operations.

12616. You would prefer that the requirements and demands of the Secretary of State should be put at as low a figure as possible?—Yes, for the purposes of this particular argument. I think it is a desirable thing that they should be kept as low as possible.

12617. You further think that this would be a useful step in the direction of an automatic currency system for India?—Yes, whoever sells these goods would have to cover his exchange himself.

12618. I want to ask you a few questions with regard to the ratio of 1*s.* 4*d.* or 1*s.* 6*d.*, which is also before the Commission. You gave evidence before the Babington-Smith Committee as representing the Government of India?—Yes.

12619. You were also a member of that Committee?—Yes.

12620. I do not know whether you would like me to read out the questions, but I want to refer to Volume 2, at pages 58 and 59, Question 864 and onwards, where questions were put to you in connection with the ratio. The ratio then was a question of 1*s.* 6*d.* or 1*s.* 8*d.* or 2*s.* In various questions, from 864 on to 883, you definitely expressed the opinion that a high exchange is detrimental to the cultivator and is detrimental to the industrial interests of India. May I ask you if that principle holds in the case of the difference at present between 1*s.* 4*d.* and 1*s.* 6*d.*, an increase of 12½ per cent.?—Yes. I have pointed out in addition that the rising exchange has a much greater effect than a high rate of exchange.

12621. You used the word "rising" nowhere, if I may say so. It begins at Question 864, on page 58?—In Question 878 I say: "I pointed out that a rise in exchange would undoubtedly be a handicap to those industrial undertakings whose products are, or would be, in competition with manufactured products from other countries." I have always maintained throughout that there is a difference between a high exchange and a rising exchange. I think the point is somewhere brought out that once you can get an adjustment of prices to a particular level of exchange the theory should be that you have got equilibrium at that point, but the process of getting such an equilibrium might disorganize trade and might alter the trend of trade and its character. I do not say that it is equally true that if you should put up your rupee to any particular point, say 10*s.*, but it is true that the process of getting up to it creates the greatest dislocation. When you have got a certain rate if the price levels have been adjusted to it both in the country where you are considering it and the countries outside, then, I do not think there is anything like the same effect—I should say, the effect is probably nil.

12622. I will take that in addition to what you said to the Babington-Smith Committee?—It is an awfully debatable point I agree, but that is my general feeling about it.

12623. Do you think that the adjustment between 1*s.* 4*d.* and 1*s.* 6*d.* has been complete by now?—Well, I do think that there are many points which indicate that there are still some points which are in doubt. There is no doubt that the position of the Government of India is sound enough now. It is balancing its Budget, but we also have to recollect it is after three or four years of good seasons. What would happen if those three or four years were succeeded by three or four bad years is a risk which has to be taken into account.

12624. Do you think it would be feasible for the Government of India without frittering away resources in reserve here to maintain the exchange at 1*s.* 6*d.* in the case of bad years?—I should speak now with more hesitation than I did in 1919, but I feel that if you could courageously embark upon a policy after fixing the 1*s.* 6*d.* rupee of contracting the currency, I think you might expect to go through without difficulty.

12625. It would necessitate a contraction of currency?—I think so.

12626. You are in touch with India, being at the head of a very important bank at present. Do you think that it is desirable to expose India to any risk of contraction of currency at present if it can be avoided?—Well, you see, at various points of my evidence I said I was not at all certain that there was not a redundancy of currency. You will recollect the view which was taken prior to the appointment of the Chamberlain Commission that India had been flooded with too much currency for a series of years when there was a large balance of trade in favour of India and rupees were put into circulation in large quantities and gold came out to India. It is awfully difficult to say that India cannot stand withdrawal of its currency, but the real problem I will put is this, which of the two is the greater evil, the contraction of currency or the uncertainty of what the exchange is to remain at?

12627. Since the Chamberlain Commission reported, as you know, a good deal of water has flowed underneath the bridges?—Yes.

12628. I do not think one could say that there has been no change since then. In view of the depression which has existed in India during two or three years, do you think any scheme which necessitated contraction of currency is in the interests of Indian trade, commerce, and industry?—Well, I do not know what you mean by "interests." It may not be in the particular interest of a particular trade.

12629. Generally?—But generally speaking, if you have come to a decision on a particular rate you ought really to see it through.

12630. That is quite a different thing from taking cognisance of all view points before coming to a decision. After a decision has been taken, that may be another matter?—If you are taking me on that point, my answer is that if conditions were to permit it I should much prefer to see all the arrangements ready and available for the necessary operations when you have had the character of the coming monsoon determined. That means that if you can bring about a stabilisation at the present rate, and the monsoon prospects are sufficient to justify it, I would do so; but I can believe that it is quite conceivable that before the monsoon you would require to take an immediate decision one way or another. If no immediate decision is taken, then I do not quite know exactly what would happen. You would get a dislocation comparable with the dislocation which occurred before. At some stage or other you have got to do it. We were often told by people in regard to the exchange and with reference to currency matters that you should register what has happened rather than what is going to happen. If you had done this in the autumn of last year, 1925, when we knew what was going to happen in the way of the monsoon, I think the 1*s.* 6*d.* rupee could have been introduced then without any hesitation at all. Now we do not know what the monsoon for 1926 is going to be. Then there is this action of the Government of having kept the rupee down to 1*s.* 6$\frac{3}{16}$*d.*, which I think is a material factor.

12631. By manipulation?—But it is a material factor in the situation.

12632. (*Chairman.*) We have taken a lot of your time, I am afraid. Is there any other point you would like to bring before the Commission?—I do not feel that I ought to take up any more of your time, either. Personally, I have no other point to refer to. You have covered the points that I was very anxious to put before you.

12633. (*Chairman.*) The Commission are very much obliged to you for the assistance you have given them. The Chairman of the Commission, Mr. Hilton Young, wished me to express his regret that he would not have an opportunity of hearing your valuable evidence.

(*Witness.*) Thank you.

(*The witness withdrew.*)

# THIRTY-SEVENTH DAY.

## Friday, March 19th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C. M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR (*Secretaries*).

Professor T. E. GREGORY called and examined.

12634. (*Chairman.*) You are kind enough to come and assist us with your evidence this morning, and you also have provided us with a very informative memorandum.* You are Professor of Banking and Currency in the University of London?—Yes; I hold my chair tenable at the London School of Economics.

12635. In reading your memorandum, one preliminary question suggests itself to me. Should I be right in gathering that you look upon the ideal currency for India as a gold currency, and that you are prepared in some degree to sacrifice the circulation of notes for the sake of the circulation of gold?—Well, I should prefer to put it in this way; that in order to make room for gold without causing too great an absorption from the world's money market, I should be prepared to retire the notes of smaller denomination.

12636. Have I received a wrong impression when I receive the impression from your memorandum that, under certain circumstances which you are dealing with in this memorandum, you look upon gold circulation as more desirable than note circulation?—No; I should prefer to put it in this way; that until the transition to the gold standard is perfected I should like to see the volume of fiduciary currency, whether notes or silver, restricted. After that time, it seems to me, that it does not matter very much whether the actual circulation consists of gold coin, or whether it consists of notes secured by gold.

12637. Let me put it in this way. You are prepared to reduce the proportion of notes in circulation in order to increase the proportion of gold?—Not even that, after the transition.

12638. You would recommend that only as a transitional measure?—Yes.

12639. Hoping and believing that after transition there would be a re-substitution of notes for gold?—Well, after the transition, since all notes would be redeemable in gold on demand, the question whether actual gold coin should circulate, or whether gold notes should circulate is a matter of convenience.

12640. What would be the advantages of gold circulation which would compensate for even the temporary diminution of the proportion borne by notes to the total circulation?—I think the advantage would be that it would satisfy Indian sentiment, apart from the fact that it would inaugurate the gold standard.

12641. What is the ideal currency for India to which you are working in your proposals?—Well, I suppose that the type of currency system that I recommend is really a variant of what used to be called the "limping standard"; that is to say, there would be a fair amount of gold or gold notes in circulation, but at the same time there would be a very large circulation of silver rupees.

12642. Your ultimate ideal would be that there should be little or no gold in circulation?—Well, I would not be prepared to go as far as that. I should prefer to say I would leave it to the future to decide as to the actual form of the circulation.

12643. Let me come to some rather more detailed questions just to elucidate what appears to me to need elucidation in the course of your memorandum. You say in paragraph 1: "That the failure of the experiment of 1920 has discredited the currency policy of the Indian Government." Was that currency policy based on the true principles of the gold exchange standard?—I should prefer to say that the experiment of 1920 confused the necessity of fixing the rate of exchange at a point which would not involve the disappearance of silver with fixing the rate of exchange at such a point as to keep prices steady in India itself. I think it was founded upon the principle of the gold exchange standard, but I doubt whether the conditions of the time were thoroughly thought out in applying the 2s.

12644. Might it not be reasonably said that any failure at that time was not to the discredit of a gold exchange standard administered with a scientific regard to what the principles of that standard are?—I should not say that the failure of a particular rate indicated that the gold exchange standard had not a good deal of scientific validity.

12645. You see the point of my question? If, as we have had stated repeatedly in evidence, the gold exchange standard was not fully understood or, at any rate, was not scientifically administered, then in fact the standard that was being administered was not the gold exchange standard at all, but was something else, and its failure was not the failure of the gold exchange standard, but of that something else?—I did not intend to state that no form of gold exchange standard has any scientific validity. All I meant to imply was that the application of the gold exchange standard in India had been prejudiced by the unfortunate experiment of 1920, if it be unfortunate.

* Appendix 80.

H. 1328 25&1—5 7/26 Harrow

12646. In the same paragraph you say that you base your preference for the gold standard as opposed to the gold exchange standard "upon the feeling that the wider the area in which gold serves as a standard and the principal coin, the less the danger of a further fall in the value of the metal." In the first place, do you think that gold as the principal coin in use is any feature of the gold standard system existing in other countries now?—No; not of the post-war currencies of the world—certainly not.

12647. In the second place, is it your opinion that if gold is not used as the principal coin over a wide area the value of the metal is bound to fall and gold prices of commodities rise?—Really what I meant to imply was that any currency system which does not provide for either notes based upon a direct holding of gold, or actual gold in circulation, tends to reduce the value of the gold.

12648. Would you repeat that? I am not quite sure that I follow it?—Any currency system such as a gold exchange standard which does not itself imply any holding of gold, whether as reserve or as medium of exchange, works towards the the reduction of the value of the gold.

12649. Does the gold exchange standard not imply holding gold in reserve?—Well, in the form in which, for instance, the gold standard reserve of India is held at the moment, it certainly does not.

12650. There is a gold holding?—There is a holding of gold in the paper currency reserve, but I regard that as not implied in the principle upon which the Indian currency is administered at the moment.

12651. Turning from the actual circumstances of the moment to the question of the institution of a sound exchange standard, would it be possible to institute any exchange standard that would be sound and workable without a resort to gold in its reserves?—Certainly. I think it would be perfectly possible to work the Indian gold standard exchange on the principle that the Government of India would be prepared to redeem rupees at all times in drafts on London, and that would require no holding of gold of any sort.

12652. All the reserves would then be held in the form of gold securities?—Certainly; or bank deposits in London.

12653. Would any prudent currency authority hold the whole of its reserves in securities without any buffer to protect the security market in the case of a sudden crisis?—If it held all its securities in the shape of short maturities, the probability of a serious depreciation in the value of the securities would hardly arise.

12654. Even in the case of a rapid realisation?—Well, if the Government of India held Treasury bills exclusively they would run off automatically without any very serious pressure, I think.

12655. They would run off automatically, but I am afraid they cannot be commanded so as to run off to meet your requirements in the case of an emergency in the security market?—Of course, if you had to sell the whole of the reserve, whether short maturities or long, in one day, you would have to risk a certain depreciation in the face value of the securities.

12656. One can test the position by taking an extreme case, anl no doubt an absurd case, but it serves to point out the dangers of the position?—Yes.

12657. Shall we return to my original question from which we were diverted a little?—Yes.

12658. If gold is not used as a standard coin, do you think that the value of the metal is bound to fall and the gold prices of commodities bound to rise? I should rather gather that impression from your memorandum, but I am not sure whether it is a correct impression?—What I felt was that unless the gold is actually held as gold in reserve and as a backing to notes the value of gold, assuming the present output to continue, will certainly fall.

12659. Perhaps I may return to that in rather more detail on another point?—Certainly.

12660. In paragraph 3 you express the opinion that the tendency for gold output has been to decline?—I really quote Mr. Kitchin there. I think unless mines are discovered, in the long run the world output of gold will fall.

12661. And you cannot count upon their discovery?—No; but I venture to suggest that one can count upon. considerable improvements in the technique of mining.

12662. Has there been much improvement in recent years? I do not know whether this is a subject on which you would care to speak?—I am not a mining expert, and I would not like to say.

12663. You would rather I did not ask you about that?—Yes.

12664. In paragraph 4 you point out: "Consequently a falling off in gold output does not necessarily have a direct effect on price levels at all in these days; banks reduce their reserve ratios a little, and that is all." I feel there is a slight inconsistency between that and the apprehensions you have expressed in paragraph 1 as to the fall in value of gold. If this method of correction may be applied in the one direction, why may it not be applied in the other?—I am not quite sure that I get your point. What I really intended to do in paragraph 4 was to point out that even if in the future——

12665. May I make clear what is in my mind? If the banks can adjust their reserves to a reduced output, why cannot they adjust them to an increased output?—Yes; they could. All they need do in that case is to increase the reserves.

12666. Continuing the points which we are clearing up in paragraph 2, you say that you attach no importance to the suggestion "that the lower rate of exchange will reduce the demand for gold during transition to the gold standard." I rather take it that one of your reasons is that if the rate is lower the volume of notes and rupees in India will have to be increased?—Yes.

12667. Consequently, the total demand for gold will not be very different from what it was before?—Yes.

12668. I think I have followed your argument. Now, proceeding with your memorandum, you have said that all further coining into rupees shall be discontinued, and all further issues of notes are to be only against gold tendered for conversion?—Yes.

12669. If that be so, I do not see how the volume of internal currency seeking conversion in India will be greater with the exchange at 1*s.* 4*d.* than at 1*s.* 6*d.*?—I am sorry. I really intended to make my scheme work on the assumption that you keep the rate of exchange what it is now—round about 1*s.* 6*d.* If you were to insist on a lower rate of exchange, 1*s.* 4*d.*, then there would be a preliminary watering down of the currency to maintain the rate at 1*s.* 4*d.* If you had brought the rate down, then again my restriction would apply.

12670. If you went down to 1*s.* 4*d.*, there would have to be an initial period during which your restriction could not apply?—Perfectly.

12671. Now there is a figure here which I am not quite sure about, as I follow your memorandum. You say in paragraph 3: assuming the Indian private demand to be £22,000,000 per

annum, on the average India will absorb " about $\frac{3}{7}$ths of the current supply " in 1930 and less than half in 1940. $\frac{3}{7}$ths would be about £32,000,000, and half would be about £33,000,000?—Yes.

12672. The world supply you have assumed to be £75,000,000 and £67,000,000 in those two years?—Yes.

12673. I take it you have added to the £22,000,000 about £10,000,000 for the annual currency requirements of India?—Yes.

12674. The total Indian absorption?—Yes.

12675. You think that £10,000,000 of gold would be sufficient?—£10,000,000 per annum for ten years.

12676. Both for gold currency in circulation and reserves at the Central Bank?—I was taking the £100,000,000 as being the figure in the proposed scheme, and assuming that the demand would be £10,000,000 for ten years. My own opinion is that one could start the gold standard with less than £10,000,000, because India also possesses a certain stock of gold in the paper currency reserve; and the annual volume of gold that I think must be acquired by India is to bring up the reserve to the minimum requirement, in the proposed scheme, of 30 per cent. cover.

12677. We are considering now the total amount of fresh currency required for the circulation of India, with the enormous increase in demand following good monsoons, and so on?—Yes.

12678. In addition to what you have just referred to as what is required to bring up the reserves?—Under the proposed scheme, you would be in a position to increase the gold note issue to 3⅓ rupees for every gold rupee presented to the Imperial Bank, or Paper Currency Department.

12679. You would be in a position to do what?—You would be in a position to create a gold paper currency, a paper currency based upon gold, in a ratio of 3⅓ rupees for every rupee of gold sold to the Imperial Bank under the reserve requirements of the proposed scheme.

12680. I see what you mean; but the question in my mind is whether £10,000,000 is by any means an adequate allowance for what is required supposing you have good monsoons?—Well, I am hardly in a position to say. I was really taking the figures of the proposed scheme and regarding them as more or less adequate. Perhaps you would allow me to add that I think if India does go to a gold standard, the question of how much gold will in fact be required will settle itself. The Indian price level must be kept in equilibrium with the world price level. If there are very good monsoons, temporarily India will absorb rather more gold than usual. If there is a bad monsoon, it will absorb rather less.

12681. Subject to any factor which has to be allowed for the conversion of stores of value kept at present in other forms?—Yes.

12682. In paragraph 5 (*b*) you say that the drain of gold from London under the Indian gold standard scheme should be judged differently, in relation to the reaction of the situation in London, from a drain due to lack of equilibrium of price levels; and you draw a just distinction when you say that the derangement that arises in the latter case during transition to the new equilibrium stage need not occur in the former case, if the gold which is drained happen to be redundant—a very vital reservation. What do you think about the position in London? Is there such a redundancy of gold?—Well, I really am not in a position to say. I do not know how the bank authorities regard their present reserves.

12683. It is a matter upon which the instructed public may have an opinion?—Perhaps you will allow me just to elaborate that? What I should be inclined to say is the dangerous aspect of the situation in the City of London at the moment is not the absolute size of the reserve at all. I do not think that anybody can really say whether the present reserve and the present reserve ratio, if they could be maintained permanently, are too large or too small. What is dangerous is the fact that the bank cannot maintain the reserve at its present figure without a constant small loss of gold, which cumulatively amounts to a large amount in the course of the year.

12684. That is the present position?—Yes, I regard the present position as dangerous; it is dangerous, not because of the absolute size of the reserve being too large or too small—about that I do not pretend to say—but because the reserve cannot be kept in equilibrium.

12685. Assuming, as we must assume, that the present size of the reserve is in the eyes of the London Authorities not excessive, and that the condition you have described is one in which there is no redundancy of gold in England, but that on the other hand the difficulty is to maintain the necessary amount?—Yes; but I am not sure in my own mind whether the bank authorities would not regard the situation rather differently, if they were absolutely certain that they could keep the reserve at its present figure. What I feel is, in the City at the moment two rather different questions are being confused: (1) the absolute size of the reserve; and (2) whether the reserve, whatever its size may be, can be maintained without loss; and I feel that all uncertainty is really due to the second factor.

12686. That uncertainty would not be diminished by the establishment of a fresh demand for gold from India?—No, I would freely admit that, from the standpoint of the bank authorities, any additional demand arising anywhere would cause them discomfort for the moment.

12687. We are looking at this matter from the point of view of no other interests than those of the Indian State and the Indian community. But as you state yourself in your memorandum, the consequences of a derangement resulting to the City of London would be an increase in the bank rate?—Yes.

12688. And the money screw, with all its reactions upon prices and commercial activities. What weight in your opinion should be given to those circumstances, possibly dangerous from the point of view of the interests of India, as they would react upon the prosperity of Indian commerce—I mean a rising bank rate and a high bank rate?—I think a rising bank rate here would have indirect adverse consequences in India, through damping down the demand in this country for Indian products. It is because I am quite seriously afraid of the influences of a very high bank rate on international trade that I really suggested the alternative scheme, which would not involve a demand of an order of £50,000,000 gold.

12689. In your opinion it is not only the reaction on the situation in London that we have to consider in this regard, but the ultimate reaction on the situation in India?—Yes, I do not know that the ultimate reaction would be very serious in India; but it would have some influence.

12690. It would be serious in proportion to the degree of derangement, would it not?—Well, that depends upon how the demand for Indian raw materials, and so on, is directly affected by a rise in the London bank rate. If a rise in the London bank rate were followed by consequential rises elsewhere, if you had a sort of international competition in raising bank rates, the cumulative effect all over the world would be for a short period of time quite serious.

12691. Is it possible that a derangement in London of this sort should not be followed by reactions in the other central banks of Europe?—No; I think that depends entirely on how they regard their own gold situation.

12692. They regard their own gold situation as extremely dependent on London, do they not, and through London on New York?—Well, I think they would raise their rates if they thought that the gold situation in London showed that the pound sterling was not yet at equilibrium with international gold values. I do not know that they would necessarily raise their rate, if they merely thought that London was losing gold because of an Indian demand for the restoration of Indian currency conditions. That is why I insisted so much on the distinction between those two points in that sub-paragraph (b).

12693. One point I should like to ask you on the analysis of the silver situation. You say in paragraph 6 (2), that a depreciation in the value of silver would cause a decline in the net demand for silver. I want to apply that to Indian conditions. We have had a good deal of evidence to the effect that a fall in the price of silver might on the contrary stimulate the consumption in jewellery and ornaments and plate. Have you given any weight to that consideration?—I really incorporated that result in my answer, because in the questionnaire I distinctly said that silver was regarded as an important store of value in India. I assume, if it is really regarded as a proper instrument for hoarding purposes, that an anticipated fall in its value would at any rate reduce that type of demand.

12694. May I put it in this way: We have had evidence to the effect that it is regarded as a store of value; but on the other hand, the inveterate custom of holding silver as a store of value and also in the form of ornaments, and so forth, is so strong that it may be looked upon in some degree as a factor which is independent of the commercial value of silver; and it might be that the cheaper it became, the more it would be bought for those purposes?—Naturally, any fall in the price of a commodity does usually stimulate some form of demand for it, but whether the aggregate demand would remain the same, I do not know. I do not want to be dogmatic on a point of that sort, on which I have absolutely no personal knowledge at all.

12695. Perhaps it is rather a matter of Indian psychology, and for those with long experience of Indian life?—Yes.

12696. You say in paragraph 6 (4), that during the transition to the gold standard silver or notes should only be given for gold within the limits of the existing circulation. Do you mean that convertibility of notes into silver should also be stopped, or is that not implied?—No, that is not implied.

12697. It is that the tender of silver or notes shall only be within the limits of the existing circulation?—Yes.

12698. There is a normal increase in the requirements of India of round about 20 crores of rupees per annum. Is it your view under your proposals that during the transition stage further accretions should only be in the form of gold coin or gold certificates?—Gold certificates or gold coin.

12699. How does your proposal in that regard apply to the question of the provision of seasonal currency for seasonal demands?—I had thought of that point; and I should suggest that might continue as it is now.

12700. Even with that provision, your suggestion might possibly be criticised from the point of view of not providing sufficient elasticity for expansion?—I quite agree. I am quite prepared to meet a criticism of that kind on the lines of the argument that if you want a gold standard, you must pay for it. You cannot introduce a gold standard and at the same time indefinitely increase the supply of fiduciary currency. The more you do that, the longer you delay the introduction of the standard.

12701. Under your proposals the people who would have to pay for it would really be the commercial, industrial and provincial community of India, who would be provided with a currency system which kept them for an indefinite number of years in a condition which has been described as that of being in iron bonds—the iron bonds of an inelastic currency?—I should say that the tendency would be, if one restricted the supply of silver rupees or silver rupee notes, and there was a series of very good monsoons, that the Indian exchange would be constantly at gold import point and gold would be presented either to the Paper Currency Department or the Imperial Bank. That would be a reason in my opinion why the gold standard should be introduced earlier than anticipated in the proposed scheme. I only want to maintain the restriction until, in fact, the convertibility of other forms of currency into gold is assured. After that point it is a question more or less of the automatic working of the scheme.

12702. But the more and better monsoons, the greater the potential expansion of Indian commerce, and the greater the need of expansion of credit in currency, and the greater under those conditions the hardship, if it be a hardship, of a currency system which was inelastic in its character?—Yes. I think that I am rather afraid of elasticity at a time when you are proposing to change over from one standard to another.

12703. You not only frankly admit, but you freely acclaim, that the two are incompatible?—Yes.

12704. Apart from the mechanism of your proposal, in paragraph 8 (*b*) you say that if gold be tendered for notes, "a corresponding portion of the investment in the paper currency reserve" should be cancelled?—Yes.

12705. That would involve the cancellation of an equivalent amount of notes, would it not?—No, my idea was that the total volume of notes should remain unchanged during the transition period. If gold is presented the total volume of notes remains the same but the fiduciary portion of the notes gets reduced.

12706. What happens is that, against the tender of gold, you issue your gold certificates, which would have the effect of notes in currency?—Yes.

12707. Then you would cancel an equivalent number of notes against the securities in the fiduciary portion of the reserves?—One can put it in that way, but in effect the net result is to cancel a certain portion of the investments.

12708. At any rate the result is to leave the total situation unaltered?—Yes.

12709. If the gold seeking conversion into notes came out of the hoards, considering that gold would be coming into the currency office in the natural course of the trade balance, would that proposal and its attendant results be desirable—that there should be no increase?—Well, I think the proposal in 8 (*b*) really follows logically from paragraph 6 (4) which you have previously commented on.

12710. It is putting the same question which I have been putting to you in another way?—Yes. What I feel is that until convertibility is actually declared it really makes no difference how the currency is secured—whether it is secured by the obligations of the Indian Government or silver or gold. The value of the currency will depend on its quantity in relation to the demand for it.

Therefore, until convertibility is secured I feel that it would be unwise, however the gold came to the Currency Department, to increase the total issue.

12711. I only want to bring out that that is the way in which the mechanism of your scheme would operate as regards any increase?—Yes.

12712. In paragraph 9 you say that the minimum amount of gold to be acquired would be the amount of 27 crores. That is based upon 30 per cent. of the gold reserve, is not it?—Yes, that is the minimum which you would require.

12713. That is the minimum gold reserve. We have had a good deal of evidence to the effect that 30 per cent. is much too low for India. Have you considered whether 30 per cent. is a safe figure for the metallic portion of the gold reserve in the Indian currency system?—No, I am afraid I have not. I would not like to be dogmatic about it. I really do not know.

12714. Perhaps I may put it in this way. What leads you to the figure of 30 per cent.?—I simply adopted it from the proposed scheme. I simply took the present gold holding and asked what would be the minimum amount you would have to add to get your reserve figure. I should be inclined to say that you can keep the reserve at any figure you like. If, for instance, gold notes were presented for redemption and the gold were hoarded under the gold standard, that would obviously create a gap in the circulation which would be supplied by more gold coming in.

12715. I understand the figure of 30 per cent. is only taken by you, and it is not your own figure?—No, it is taken by me from the proposed scheme.

12716. It is lower than that of any other central banking system, is not it?—I would not like to say. At the moment most central banks are holding nominal gold reserves which are really gold claims and balances in foreign banks.

12717. Means of procuring gold?—Yes.

12718. Claims to gold?—Yes.

12719. I find a reference in paragraph 9 to a resulting deficiency of about three millions in the paper currency reserve being made good by the gold standard reserve. I do not quite follow what your general proposals would be as to the disposal of the bulk of the gold standard reserve?—Well, I really have not considered that point very carefully, but I should be inclined to say that the gold standard reserve should be maintained for the case of a series of bad monsoons which would temporarily upset the balance against India, because I do not think in the case of an adverse balance for the time being it would be necessary to ship gold from India to London. The foreign obligations on London could be perfectly well met by transfers of drafts on London.

12720. Then you were contemplating in your proposal the maintenance of a separate gold standard reserve?—Well, I have not really thought this point out, but I can quite conceive the usefulness of maintaining a separate gold standard reserve at any rate until the Indian currency system has been worked for some time under the new conditions.

12721. What at first sight, in your apprehension, are the advantages which accrue from the maintenance of the separate gold standard reserve?—I should not care to put too much emphasis on the word "separate," I believe that a currency reserve of any kind, or let us say a foreign exchange reserve might be exceedingly useful for the purpose of inspiring confidence in the future of the Indian currency.

12722. Would that be necessary as long as the minimum proportion of the metallic holding in a unified reserve was sufficiently large?—It might not be necessary with 30 per cent. I would not like to pledge myself on that. What I do feel is that India would be trying a great experiment about which the rest of the world might be a little doubtful, and it would be desirable supposing a sudden break in world prosperity came about in the next ten years that India would have something like a gold reserve to fall back upon in case of having to meet a very heavy adverse balance for the time being.

12723. I can follow your argument to the point of it being necessary for India under the circumstances of the conditions of transition to hold adequate reserves to fall back upon in the case of unforeseen emergencies, but does the argument apply to the extent of saying it is desirable to hold two reserves, in the segregated form of a distinct gold standard reserve in addition to the reserve which is behind the note circulation of the country?—Well, I am really rather indifferent as to the form in which the gold reserve is held—whether it is held segregated as the property of the Indian Government, or whether it is in some form or other transferred to the Imperial Bank. What I do feel is that it is very desirable that every central bank should hold certain assets which it can dispose of quickly in the case of a break in trade.

12724. That really applies rather to the character of the assets than the account on which they are held?—Yes.

12725. With reference to your proposals in paragraph 8, how would the external value of the rupee and note be maintained during the transition? Do you accept the obligation in the first sentence of paragraph 4 (1) of the memorandum on the proposed gold standard scheme? If you do accept that obligation during the transition period, is it possible to undertake the obligation if you open the mints to coinage?—Well, I am not prepared to accept paragraph 4 (1). That is the particular danger that I want to ward against. I do not want the Indian Government to be faced with a quite unknown demand for gold while this scheme is in its preparatory stages.

12726. Even for gold bullion?—Because after all I should have thought it was fairly easy for the bullion merchants in India to collect the minimum amount of silver or legal tender. I think the obligation imposed on the Indian Government to coin gold in return for a tender of gold bullion, does not logically depend upon the acceptance of paragraph 4 (1).

12727. No, but then supposing we do not contemplate the obligation in paragraph 4 (1) of the maintaining of the exchange value of the rupee during the transition period, by what method could it be maintained?—I beg your pardon. I thought you implied that paragraph 4 (1) meant that the Government should sell actual gold. I think the maintenance of exchange involves such action on the part of the Indian Government that the actual rate of exchange for sterling in terms of the rupee does not fall below the gold export point.

12728. What would that action be, if it is not the sale of bullion?—Well, it might be the sale of drafts on the gold standard reserve. It might be merely caution in the issue of fiduciary notes. I mean the limitation of the Indian currency in itself would be sufficient to keep it exceedingly steady without necessarily burdening the Government with a very large obligation of selling gold against legal tender.

12729. But in any currency system is it possible to rely upon a limitation of the currency to maintain the exchange without acceptance of any obligation as to provision of means of international payment at certain rates?—Well, I think

that at the moment the exchange policy both of the Austrian National Bank and of the Reichsbank is really based on the principle that you should keep the internal volume of the currency to that figure at which the exchange will be stabilised. I do not think that either of those banks accept any statutory obligation to sell exchange for currency, and certainly not bullion, to anybody who cares to ask for it.

12730. Practically the maintenance of an exchange standard, such as this would be during transition, must depend, must not it, on the currency authority being prepared to provide some means of international payment at the rate which it is desired to maintain?—It may mean that, but I do not think it necessarily means that.

12731. Without that your internal currency is never to any extent contractable?—Well, I do not accept the view that currency is not contractable.

12732. On the contrary, I should have thought that every currency was always contractable to some extent however carefully you restricted it?—Granted that, then I think any currency authority can always keep its exchange steady. It has only got to contract its currency enough.

12733. Can a country contract its currency by any other mechanism than by providing a means of international payment against whatever portion of the internal currency is capable of being contracted at the time at which the exchange is made?—I should think in the case of Indian currency, where the currency is always flowing back to the Treasury chests, the simple way to contract the currency is by cancelling the invested portion of the reserve as the currency flows back in payment of taxes. There is no obligation of Government to re-issue fiduciary notes unless it likes. May I add that I should be prepared to recommend that the Indian Government should sell exchange on London during the transition period, but not that it should be obliged to sell gold for any purpose.

12734. I thought probably you would add that to your analysis. That being so, during the transition period you would have an exchange standard?—An exchange standard with the Mints opened to the coinage of gold.

12735. But the central authority providing nothing but foreign exchange?—Quite so.

12736. There is one more question upon the quantity of gold required that I should like to ask you. I am afraid this is rather a long question. I will just give you the information I want to ask you about. You say in paragraph 3 that the gold available for world monetary purposes will be £23,000,000 in 1930. and £15,000,000 in 1940. I have before me the quinquennial averages to 1924 of gold available for monetary purposes according to certain estimates. May I just give you the figures. In 1909, £55,000,000; in 1914, £49,000,000; in 1919, £55,000,000, and in 1924, £34,000,000. Accepting those figures as the quinquennial averages of gold available for monetary purposes, do you consider that the amounts of £23,000,000 and £15,000,000 would be sufficient without considerable adjustments of reserves in the Central Bank?—Taking those figures, then in 1930 my figure would be £23,000,000, and in 1940, £15,000,000. I should like to say two things on that. First, I should like to reconsider my figure of world industrial consumption. I wrote this memorandum under considerable pressure, and I am not sure whether my figure of industrial consumption is correct.

12737. Do you mean on the small side or on the large side?—I took no account, as I ought to have done, first, of the fact that the industrial consumption is not entirely provided out of new supplies of gold. There is a considerable remelting of old gold for industrial purposes.

12738. That would reduce your figure?—That would reduce my figure. Next, I am not quite sure whether this United States figure, which is taken out of the general tables, included the United States itself. I should feel obliged if the Commission would allow me to check that figure again before regarding it as in any way authoritative.

12739. Perhaps you will alter it in the proof*?—Yes; but apart from that, the more relevant point is that I do believe that the post-war situation with regard to monetary demands for gold is entirely different from the pre-war one.

12740. That is dealt with, to some extent, in your memorandum?—Yes. I think it is very important to emphasise how different the constitution of the monetary system is to-day from what it was ten years ago.

12741. With the reservation as to your figure, supposing we assume the figures which I have quoted for gold available for monetary purposes, what do you consider is the bearing of that upon your estimate of £23,000,000 and £15,000,000 as the amount to be available in 1930 and 1940, and the effect that that would have upon the gold policy of the central banks?—Well, I feel that the central banks may, in the future, have to work with smaller, and perhaps considerably smaller, reserves than they were working with before the war; but I feel that that does not imperil in any way the operation of the gold standard. For instance, I cannot see that it is really necessary for the Bank of France to maintain something like 5 milliards in gold, approximately.

12742. If the central banks have to economise their reserves in this country how would that bear upon the possibility of establishing the gold currency in India? Would the two not run counter to each other and hinder and impede each other?—Well, I should say if India went on to a gold standard and there was an additional demand for currency purposes in India, that would in fact force economy upon the central banks.

12743. If economy is being forced upon them from considerations of the inadequacy of the world's gold supply, that may land them in a difficulty?—I really think if one looks at the actual reserves of some of the banks one could cut very considerable slices out of those reserves without doing any harm to anybody.

12744. Then your expectation of the avoidance of difficulties is based, very largely at any rate, upon your belief that the central banks of the world might safely reduce their gold reserves?—Yes; apart from that there is the quite unknown factor of the future gold output and economies in the mining of gold.

12745. Assuming that these figures throw some light upon the situation as regards the possibility that the central banks of the world might safely reduce their gold reserves, do you think (apart from one's own opinion) that it is likely that they would do so under present conditions—of novelty and a certain anxiety?—In fact some of them are ready to do so, but I think it would be rather ungrateful to play the part of a prophet in this particular matter. I think events would force them to that.

12746. One such possible event being the establishment of a gold currency in India?—Quite so.

12747. An event of that sort which would force upon them the reduction of the gold reserve below, at any rate, what they consider to be necessary, is not one which would increase the general confidence of the world in the gold currency system?—I feel that as things are at present the question of the size of the reserve has

*The figure, as stated in the memorandum, includes the industrial consumption of the U.S.A. For 1922 the gross U.S.A. consumption amounted to $59·8 millions; the *net* consumption (*i.e.* new gold) amounted to $36 millions. If this relation between gross and net consumption held true of the world as a whole the net consumption would be in the neighbourhood of 60% of the gross. T.E.G.

never been argued scientifically in any way by the central banks. I would find it exceedingly difficult to say that the present reserves are scientifically arrived at in any sort of way.

12748. They are arrived at, I suppose, by considerations partly scientific and partly according to the business man's estimate of the large considerations affecting the political circumstances in his own country—the views of the business men in control of the central banks of the various countries?—Yes; but I think empiricism in such matters may be overdone. In fact, I think the gold reserves of the world in the last ten years have hardly played any role at all in the restoration of sound currency conditions.

12749. Psychology is also a science, or claims to be. Would it be safe to disregard, in establishing the gold reserves of the world, any effect that any reduction below the present general level held by the central banks would have upon the confidence of the commercial community, and also on the general public in these countries?—Well, I should say that you can always keep confidence in the currency provided you keep its quantity adequately limited. But I would agree with you in saying that if a proposal were suddenly made to the central banks that they should cut down their reserves, let us say, by one half, within a short period of time, that that would probably upset the business man, but I am not anticipating that the gradual reduction of reserves, and that is all that would be necessary, is of that order of events. After all, in a generation hence it may be regarded just as normal that the reserve should be, say, between 20 per cent. and 30 per cent. as before the war it was regarded as normal that it should be between 50 per cent. and 60 per cent., or 40 per cent. and 50 per cent.

12750. This is perhaps a course of evolution which one may hope for, but it would be somewhat imprudent to count upon as an aid in making practical plans at the present time?—I think I would be inclined to say that the currencies of the world in recent years have not been based upon gold, in fact. The value of the currency has been based upon the limitation of quantity, and the gold reserves have hardly played any role at all in maintaining their value, or in maintaining confidence in them.

12751. There are one or two scattered questions which I should like to ask you before I conclude my examination-in-chief. Do you consider in a country like India, where I apprehend you only contemplate a small gold circulation in proportion to the total circulation——?—Yes.

12752. ——that there is any likelihood that in a time of weak exchange the currency returned to the currency authorities would take the form of the cheaper materials, silver and paper?—You mean the gold, once it is out, would never come back?

12753. I will not say will never come back; but would not the tendency be for the other forms of currency to return first?—Well, I think that is largely a question of the denomination of the actual gold coin. If it were a fairly high denomination it would be too expensive to hoard easily.

12754. How does the denomination of the gold coin affect its movement into hoards? The bigger it is, I should have thought, the more convenient it is for hoarding?—But I should also say the bigger the coin the more difficult it is to acquire it, in the sense that the sacrifice of other things which would have to be undergone to get it, would be greater.

12755. Why so? Because I want to lay aside 100 rupees, surely the most convenient form in which I could do so, if there were 100-rupee coins, would be by means of the 100-rupee coin?—Certainly, I do not deny that. What I meant was supposing you could possibly have a one-rupee gold coin in circulation, it would be very much easier to acquire that and to accumulate a hoard of them gradually than it would be to acquire the 100-rupee coin.

12756. The point of my question is this. What reliance do you place on the gold in circulation as a fortification for the reserves in times of a bad monsoon and weak exchange?—Upon that I would not like to speak. I really do not know.

12757. That would depend too much on Indian conditions. Can we say from the experience of other countries that it has been found that you can count upon gold in circulation as a reliable second line of defence to the banks' reserve, in any practical sense?—Well, of course, you can drive gold out of circulation, and it was in fact done in this country in the first years of the war by issuing fiduciary paper, but I do not know that I very much believe in the theory that gold in the pockets of the people is very much of a reserve if you want it in a hurry.

12758. In paragraphs 6 to 8, and particularly in 6 (2), you observe: "If the Government is to get rid of silver, let it do so as soon as possible, and not disorganise the market for ten years." I am not sure that I understand the content of the phrase "as soon as possible." Do you think it would be possible to sell silver on any large scale? Do you think it would be possible to adopt a policy, and for it to be known that the policy is adopted, of selling silver on a large scale, however carefully it was to be done, without a disorganisation of the silver market?—No; I think if the Government of India were to announce that it is going to sell silver, it would in any case cause a bear movement in the silver market; but I feel that there is some virtue in getting the worst of it over in as short a time as possible. My own proposals would cut the period down from ten years to five years. I am not sure whether it would not be better to try and get rid of some 90 crores within a shorter period of time than that. It might be better to cause a very considerable fall in the price of silver immediately, rather than cause a sagging price of silver over as long a period as 10 years.

12759. It would be a question of a choice of evils?—Certainly.

12760. But on the whole, you think that with a swift and greater blow the evil might be less than with a longer but less severe series of blows?—Yes; because I think the market would recover sooner from a heavy blow given once and for all than from a continuous series of blows.

12761. But in some form or other in your view a disturbance of the silver market is not to be avoided, if you adopt this policy?—Not if you adopt this policy.

12762. Finally I understand your proposal is that the future increments of currency should be in the form either of gold coin, or of gold certificates against gold coin?—I do not know whether you are referring to the scheme in paragraph 10?

12763. Yes. We now come back to the final point of your proposals?—That is merely a proposal I have put forward, which I do not myself adhere to very strongly, to suggest that it would be possible, in the interim period of five years, gradually to transfer the note circulation from the Government to the Imperial Bank; but I would not suggest that in those five years the Imperial Bank would have the right to issue fiduciary currency in any way. It would merely have the right to issue gold certificates.

12764. I want to see how, in consistency with your proposals, you get over a small practical difficulty, which is this. The great need, in the Indian currency is for small change for many

small payments. How do you provide the additional small currency in sufficiently small units for the Indian requirements, on your suggestion that the increment of currency is to come in the form of gold or gold certificates?—I do not think this scheme is intended to touch that point at all. I was only thinking of large gold notes, or large gold certificates. The small payments would continue to be made in silver rupees.

12765. But you want more silver rupees year by year, or at any rate you want more small change, for what we may call the characteristic Indian small payments?—I quite follow that; but I feel that until the convertibility of gold fiduciary currency into gold is actually declared, there must be some limitation. If you ask me where the silver is to come from, that is another matter.

12766. It is small change or small currency note, not necessarily small silver?—I am not quite sure whether you refer to amounts under one rupee?

12767. No, amounts for which a gold coin could be issued?—Well, if the arguments of the proposed scheme are at all accurate, there must be a certain number of silver rupees in hoards. I suggest if you do not issue further silver from the Mint, or from the Government Department, the silver will come out of the hoards.

12768. And be substituted by further gold?—No; be spent.

12769. If people want to keep a store of value, I suppose they would continue to keep a store of value?—Then you are automatically cutting down the demand for currency. If there is a real additional demand for currency, and you do not satisfy it, as I suggest you should not, by increasing the total volume of currency, then for the time being currency will come out of the hoards, because its value will rise; that is to say, the Indian price level temporarily will fall.

12770. You would rely upon this tendency to force the hoards back into circulation to supply notes of less than the gold notes which the country requires?—Yes; subject to the fact that I believe that no great harm would be done if additional currency were issued during the crop moving season on the present lines.

12771. Subject to what you have told us about the issue of seasonal currency?—Yes.

12772. (*Sir Henry Strakosch.*) You said it makes no difference whether gold or notes are in circulation? Does it not make a difference in the matter of economy?—Yes. I would say that a paper circulation, so far as these small denominations are concerned, is more expensive than a gold circulation would be. I do not know whether that is what you intended to ask me?

12773. No. I wanted to get at the point what system of currency is more advantageous to a country: a gold standard with gold in circulation; or a gold standard without gold being in circulation; or a gold exchange standard?—If you had no notes in circulation of any size, and you had the gold standard in the sense that the entire circulation of high denominations consisted of gold, that would be less economical than the gold standard with considerable quantities of paper or the gold exchange standard.

12774. We have been told that the probable cost of introducing a gold currency in India would amount to something in the neighbourhood of three crores a year additional charges, which would fall on the Budget?—Yes.

12775. That is a material item, is it not?—That is about 90,000,000 shillings—£4,500,000 a year.

12776. You said that the advantage of the gold standard for India lies mainly in satisfying public sentiment. Is that the main advantage you see in the gold standard?—Well, perhaps you will allow me to elaborate that a little? I think there is no question at all that it is possible completely to satisfy the strict currency demands of a country and satisfy strict currency conditions in a country by the gold exchange standard. About that I have no hesitation at all. I do feel in currency matters that sentiment plays a very important part; and if there were no other objections, the country should have the currency that its people want.

12777. Even though it is more expensive and even though there is the danger of upsetting their standard?—No, I do not quite say that. I said that if there are no other objections I think the question of expense to the country itself is a question which the inhabitants of that country will have to settle for themselves. I think at the moment, upon the issue that the introduction for instance of a gold standard into India might upset the standard, that there is no very grave danger of that happening.

12778. With regard to the sufficiency of the gold supply, there are some authorities who strongly hold that the gold supply of the future will not be sufficient to keep pace with the economic development of the world. I have seen figures from an eminent authority to show that during the next ten years it is probable that the gold supply for monetary purposes will be short by a matter of 55 per cent. of the actual needs to keep pace with the economic development of the world. Your remedy would be for the central banks to reduce their reserve ratios. That is very largely a psychological factor, is it not?—Yes.

12779. It depends upon public sentiment permitting such a thing. You agree to that?—Yes, I would agree.

12780. If by any chance public sentiment were not to permit it, what would be the consequences?—Assuming that it would be impossible for the central banks as a whole to reduce their reserves in consequence of assumed psychological objections, then if additional demands for gold were made in other countries, either the price level would fall or the industrial consumption of gold would fall.

12781. Which is more likely? Will the industrial consumption fall or the gold available for monetary purposes?—Well, I feel that industrial consumption since 1896 has gone up very largely because gold has fallen in value. I think a fall in the value of gold would increase industrial consumption at once.

12782. If the past records show that industrial consumption has been a pretty steady one over a course of years, does it not suggest that if there was a deficiency in the gold supply it would fall mainly upon the monetary gold?—Well, on the assumption that the industrial demand for gold is inelastic, that it does not vary with the value of gold, then certainly it would fall on the price level.

12783. The figures from the year 1894 to the present day show a very steady percentage of absorption for industrial purposes and that fluctuation took place in the gold available for monetary purposes?—May I just add one thing to what I have been saying? If the percentage consumption of the actual output has remained steady that means that the absolute consumption of gold has been going up for industrial purposes.

12784. It has been going up?—And consequently the fall in the value of the gold has affected its consumption somewhat.

12785. Yes, to some extent, though not very materially because the gold production has not varied to a great extent. You say in paragraph 5 that a demand for gold for India might conceivably lead to the banking authorities in

this country taking fright and applying the orthodox measures?—Well, perhaps I would not go so far as to say that the banking authorities would get into a panic. What I did imply by the phrase " create alarm in the London market " was that the outer market would argue that any drain of gold from the bank for India would mean higher bank rates for some considerable period of time perhaps, and that would create alarm, not in the sense of creating alarm as to the future stability of the English currency, but apprehension as to the future course on money rates.

12786. I appreciate that, but if that set of circumstances arose the effect would be of the bank rate being raised and prices being lowered with their natural repercussions on other countries. It would, in fact, be a fight of the central banks to retain their gold if that tendency exists and we have to take into account popular sentiment. If that tendency exists, the raising of the bank rate and the lowering of prices here would be followed immediately, or very soon, by other countries doing the same thing, and would not the end effect be to appreciate the purchasing power of gold, that is to say, cause a fall in commodity prices?—I should say to that: if the bank rate were to rise considerably above New York re-discount rate, that the Federal reserve system would, if anything, welcome a loss of gold to the London market, because its reserve percentage is so high that, in fact, it has great difficulty in preventing the expansion of currency in the United States out-running its powers to control it.

12787. But if the Federal reserve banks felt that the drain might affect their own credit structure they would apply the screw as well as they do over here?—Undoubtedly, but I feel with a reserve of between 68 and 70 per cent. that it is going to take a long time before the Federal reserve system is going to feel any apprehension about the loss of gold.

12788. Will you tell us your views with regard to the statement that has been made in several quarters that the economic progress of America is such as to absorb the present redundant gold holding within a period of 10 to 15 years. Have you any views on that?—No, I have no views on that. As you probably know, the Federal Reserve Bulletin publishes a statement of money in the United States at periodical times, which seems to show that the aggregate demand of currency per head of the population is in the neighbourhood of 40 dollars per head, so that the aggregate amount for currency in 10 or 15 years would in effect depend upon the growth of population in the United States. I have not really made any estimate of what the population of America is going to be.

12789. Would that depend entirely on the growth of population?—Well, if anything.

12790. Or, would it not rather depend on the total volume of production in the country?—I think possibly that if the rate of American production were to rise very considerably in the next 20 years the demand per head might go up, but I should counter that by the suggestion that the growth of banking in the United States, if anything, is likely to lower the demand for coin per head of the population so as to be not a demand for coin so much, but a demand for bank-currency.

12791. When Germany adopted the gold standard in 1871 could you tell us the repercussions that had upon the world's gold prices—first of all on prices in Germany, and then on world prices?—In Germany, the situation was very confused as you know, owing to the boom years 1871 to 1873, and German prices rose quite considerably in those years, and then fell quite considerably afterwards. There was, in fact, a very sharp exchange crisis in the year 1873 itself. The new gold which had been acquired at great cost by the German Treasury started floating out in 1873. The world prices started falling from about 1873, or the year after 1873, and continued to fall until about 1897.

12792. Did that fall coincide with a diminution of gold production?—This is the great historical controversy of the 19th century. I am not sure that the actual output of gold fell. I do not remember what the statistics of gold production actually were. Of course there was a very largely increased demand for gold.

12793. I give you the figures. The value of gold production in the quinquennium to 1874 was 120 million sterling, and it rose in the quinquennium to 1894 to 151 millions, yet commodity prices, according to the data which I have before me, fell from 100 in the ten-year period of 1867–1877 to 60·9 in the year 1896, and that in spite of an increase of the gold production by something like 25 per cent. I am asking you that question because you seem to brush aside rather lightly the contention of some authorities, at any rate, that economy in the use of gold is desirable if the present gold price level is to be maintained. Do you not agree that, having regard to the past experience and the prospects so far as one can see them, note has to be taken of these circumstances if the stability of the purchasing power of gold is to be maintained?—I should of course not want anybody to disregard the experiences of the 19th century, but I should also feel inclined to say that the conditions in the quarter of the century between 1875 and 1900 are really so far as currency theory is concerned very different from those of the present day. During that quarter of a century you did have an actual transition of the greater part of the European continent and of the United States and of various South American countries to the gold standard. That transition absorbed more gold than the transition of a single country to the gold standard would involve now. Moreover, it was the period when the superstition that central banks required immense quantities of gold was at its height and the transition, let me say, from the silver standard to the gold standard could have been accomplished with a very much smaller reduction of the price level if the central banks had not been so keen on accumulating a very large reserve which they never used.

12794. Do you agree that economic progress during that period was far slower than it is to-day?—No; I would not agree to that. I would rather say the rate of progress was considerably greater.

12795. Would it be true to say that, if it were to happen that gold did appreciate and prices were to fall, it would have a serious repercussion on all countries, including India?—I do not know that I should like to commit myself to the statement that a long-period rise in the value of gold is serious because I would argue, quite apart from the question of gold production, supposing that were absolutely steady, an increase in world production would drive prices down.

12796. Is not that within the command of the currency authorities?—I would admit if you wanted to do so at the present time it would be possible, assuming certain currency arrangements, to keep the price level absolutely steady.

12797. Is not that the aim of all monetary policy, to keep prices stable?—I should feel inclined to say that some currency authorities in arguing for the stability of the price level have rather overlooked the point that in stabilising

the price level some mechanism has to be devised to give the consumer the benefit of lower prices which increased production brings about.

12798. You do not agree, therefore, with the resolution of the Genoa Conference that it is advisable to aim at stabilising the purchasing power of gold?—I agree with them so far that an abrupt and considerable variation in the purchasing power of gold in either direction in short periods of time ought to be avoided; but I do not know that I would be prepared to accept the view that a long period of gradual fall in the price level and rise in the value of gold would be a disaster to the world.

12799. Coming to your proposals, I gather that you propose preparing for the introduction of a gold currency by the method of issuing, during the five years that would have to elapse, notes only in exchange for 100 per cent. of gold. That is the method by which you wish to fortify the gold position in India which would finally lead, after the lapse of five years, to introducing a gold currency?—Well, I might say, firstly, that I do not attach very great weight to my suggestion of five years. I certainly disagree with the proposed scheme that the transition period should be as long as ten years, but I am quite prepared to contemplate the suggestion that it ought to be less than five years.

12800. But what I want to get at is this. What provision are you making to satisfy a possible demand for gold coin in substitution for other forms of currency in India?—I am not quite sure that I follow you.

12801. You will have seen that there are at present estimated to be in circulation, or rather in issue in India, a matter of 350 to 400 crores of rupee coin, and in addition to that there is a note circulation of 190 crores; so that the total monetary circulation, roughly speaking, is 600 crores?—Yes.

12802. It has been stated in evidence that the possibility is not to be ignored that some of those forms of money might be changed into gold; for instance, the hoards which have been estimated at something like 200 to 250 crores of silver rupees might be exchanged for gold. How do you propose to provide for such a contingency?—I propose to provide for it by taking care that it should not happen, if I may put it in that way.

12803. How can you take care that it should not happen if the public fancies that gold is a more desirable form of money than silver or the note?—I should like to go back, if I may, to an answer that I gave to the Chairman, who asked me whether I ought not to make provision for an increase in the small currency of India which he estimated at an increment of 20 crores per annum. I should say that I would avoid the danger of a sudden pressure on the gold reserve of the Indian Government coming about by deliberately not creating further fiduciary currency and dragging these 200 or 250 crores of rupees out of the hoards in the transition period.

12804. Let us take five years, and let us suppose that the total absorption of fresh currency yearly is 20 crores. That gives us 100 crores. 100 crores of rupees would come out of the hoards and would become money?—Yes.

12805. What are you going to do about the rest in case the public prefers to hold gold coin rather than rupee coin and notes?—Well, I do not know what I should do.

12806. Can you conceive a proposal being put into operation without having provided for a contingency which is by no means unlikely? You have accepted some of the figures of the official witnesses in India, and you will remember that the official witnesses in India have told us that there are probably 200 crores of silver rupees at present in hoards?—Well, I have already, in my statement of evidence, tried to reduce the danger of a simultaneous presentation of all the hoarded rupees by letting them retain their full legal tender capacity. Beyond that point I do not think anything can be done. I do not see that you can possibly accumulate in a short period of time enough gold to meet the hoarded rupees, assuming they are as large in volume as you say that they are.

12807. I appreciate the suggestion that the rupee should not be dethroned but should retain its full legal tender right to reduce the danger; but does it avoid it?—It does not avoid it absolutely, but, of course, every transition from one currency standard to another does involve some dangers.

12808. I do not know whether you are aware of the fact that in recent years the rupee holding in the paper currency reserve has steadily increased, and that one authority in India suggested—a suggestion which appeals to one—that the increase in the holding of rupee coin is due to a gradual substitution of gold for silver rupees in the hoards. Would you, in these circumstances, regard the danger as negligible of further hoards coming out and being converted into gold?—I would not regard it as absolutely chimerical—of course not—but the only question is whether the volume of rupees in the hoards is really as large as is assumed. If there is really a demand for an additional 20 crores of rupees for currency purposes, it does seem to me doubtful whether the size of the silver hoards can really be as large as they are assumed to be.

12809. Would you ignore entirely the possibility of notes being converted into gold, the present note circulation being 190 crores?—I would not regard that as being an absolute uncertainty. Of course, I would be prepared to say that if everybody in India, as soon as the gold standard is introduced, is going to exchange every other form of currency into gold, you cannot possibly work the gold standard. That is admitted. The only question is whether that is a reasonable presupposition to make—that they will shift from everything into gold. Even if they did, I should like to point out a country like India cannot carry on without any currency.

12810. But the position would not be changed. You are simply substituting one form of currency for another. You are substituting gold currency for token currency?—May I point out that my suggestion was that for the first five years the smallest gold coin would be a 20-rupee coin. The greater mass of payments in India are, I presume, for amounts less than 20 rupees, and consequently it would be impossible for India in any case to carry on transactions on the present volume without the maintenance of practically the existing stocks of silver and small rupee notes.

12811. In other words, you suggest that the rupees at present in hoards would all be needed to supply the country with small change?—I would suggest that if the Indian Government starves the circulation of new small change, including all currency under the smallest gold coin, the gap in the circulation would have to be filled by silver coming out of hoards, and that if it were anticipated that the hoards were really larger than one has, without special knowledge, reason to believe, all that would be necessary would be to postpone the date on which the gold standard was introduced.

12812. Do you think that would be a good thing, having announced that in three or five years you were going to take up specie payments, to then revoke it?—Certainly not. If it is really supposed that the probabilities are that as much as 200 or 250 crores are hoarded, and that the whole

of those hoards would be poured out on to the Government's head at once, then I should revert to the original proposal in the proposed scheme, and only introduce full convertibility at the end of 10 years, because at the end of 10 years your silver hoards would have disappeared owing to the growth in the demand for small change circulation.

12813. Was I right when I said that the only provision under your plan, which you are making for the possibility of conversion of notes and rupee hoards is the gold which you hope to get by restricting the issue of notes against gold of 100 per cent. cover?—No. My proposal is that in any event the Government of India should sell enough silver to bring up the existing reserve in the paper currency department to the minimum requirements under the new scheme.

12814. You suggested that the method employed by Germany of selling gradually, and the proposal put forward by the official witnesses of selling silver gradually, is not a good one, and that it ought to be sold immediately. Does not that depend upon the capacity of the world for the absorption of silver?—Undoubtedly, and one of the reasons why I propose the scheme which I actually do is that the quantity of silver to be sold would therefore be cut down, and the possibility of rapid sale would therefore be increased.

12815. But supposing that silver were to come in in large quantities in substitution for gold: how would you proceed? Let us suppose there are 100 crore of silver rupees coming in, and that gold is demanded in exchange for it. Obviously, unless you contract a loan, you have to sell your silver. The question is, can you sell 100 crore of rupees of silver, remembering that the total annual consumption of silver at the present moment is in the neighbourhood of 240 million ounces, at which the price remains stable. If you add to that something like 40 per cent., can you hope to sell that silver?—You cannot hope to sell it without depressing the price of silver and losing on it.

12816. And if you do depress the price of silver, what reactions will that have on silver-using countries such as China and the East generally? Would that not seriously disturb their price level —raising prices there and impeding the trade of India with those countries?—That depends on how the thing would work out. If we take the case of China, I should say that if the world price of silver fell, Chinese prices would not necessarily alter if the rate of exchange between China and gold using countries adjusts itself to the lower value of silver.

12817. You do not think, therefore, that this adjustment will cause a disturbance in trade?—Every considerable drop in the value of the precious metals in terms of the other metal for the time being of course causes a certain amount of difficulty. I would not dispute that for a moment; but I doubt whether it would be as serious a factor in international trade as perhaps the 19th century thought.

12818. Not even for India which trades largely with silver-using countries?—I think it depends entirely on how rapidly prices and exchange between silver-using countries and gold-using countries would adjust themselves to the new position of silver.

12819. Can you ignore the effect upon the savings of India in the form of silver, which have been variously estimated, but which I believe are something in the neighbourhood of 600 crore of silver, or possibly more? Do you not think it would have a detrimental effect upon the internal economy of India if its chief store of wealth is heavily depreciated?—In so far as the Indian hoarding has taken the form merely of the hoarding of silver ornaments, bangles and so on, no immediate danger to the Government of India will arise. The danger to the Government simply arises from the presentation of the actual rupee coin, and not of silver. I would agree that a very serious fall in the world value of silver would, of course, inflict severe loss upon the holders of silver on a large scale. That is why I desire to do everything I can not to throw great masses of silver out of circulation in India.

12820 (*Sir Reginald Mant.*) In your estimate of the future gold requirements of the world you have pointed out that currency conditions to-day have completely altered, and that there is little gold now in circulation. Do you anticipate that that will be a permanent feature of the future currency of the world?—Yes. I see no reason to suppose that gold is really more convenient as a means of circulation than paper money which is convertible into gold. In fact I do not believe that the populations of countries like England and the United States will go back to the use of the gold coin.

12821. What about the countries on the Continent of Europe?—Some of those countries at any rate, even in pre-war days, although they had the opportunity of acquiring gold coin on demand, did not in fact use it. The most striking case, of course, is Austria, where the Austrian National Bank tried in fact to put gold coin into circulation and found that people preferred Austro-Hungarian bank notes.

12822. Do you think they will not use gold because they have found that paper is a more economical and convenient form of currency?—I do not know whether, from the standpoint of the average user of currency, the question of economy would enter into it. I think it is certainly more convenient; that is to say, the ordinary person finds he is not as likely to lose a pocket book containing Treasury notes as he is to lose individual sovereigns; and also he can carry a larger quantity in a smaller bulk.

12823. But the policy of the Governments would be guided by considerations of economy, would it not?—If you ask me on the question of economy, then, I think, from the national standpoint, there is no economy in this sense—that if the total paper currency were backed to 100 per cent. by gold that particular type of currency would be more expensive than an ordinary gold currency, because you would have to keep the gold coin in case your notes were presented for conversion, and you would have all the expense of the management of the paper currency as well. If you have a paper currency with only a part reserve, that is more economical than a gold currency with no paper at all.

12824. Does any country have its paper currency backed entirely by gold?—There is in circulation in the United States a particular form of note known as the Gold Certificate, and that is fully backed by gold.

12825. That is part of the currency?—Yes.

12826. But not the whole of the paper currency? —No. You have the Federal Reserve Note which is backed to about 68 per cent. by gold, and you have the United States green backs which are not covered by gold at all.

12827. And the European currencies?—I do not think anywhere on the Continent you have a gold certificate; they simply could not afford it.

12828. And they are not likely to have a paper currency full backed by gold?—I should say it is most unlikely.

12829. So that considerations of economy do and will come in?—Certainly. When you asked me originally about economy I was looking at it

from the standpoint of the individuals to whom considerations of economy do not appeal as much as they do to the actual managers of the currency. The individual considers convenience rather than economy, I fancy.

12830. Does not he consider the economy in his capacity as a taxpayer?—I do not want to over-rationalise the ordinary individual in currency matters. I think he takes things very much as they are.

12831. You consider that the inclination of the individual should be the determining factor in the policy of the Government—that it should determine the policy of the Government in deciding on the nature of the currency?—Other things being equal, yes; that is to say, if there were in this country an overwhelming desire to return to the actual use of sovereigns, I think, unless there were very grave economic difficulties in the way it ought to be done.

12832. You recommend the retirement of all notes below 10 rupees. What exactly is the object of that recommendation?—The object of that recommendation is to meet the objection that the introduction of the gold standard into India would involve the immediate large sales of quantities of silver, which would depress the silver market and cause a panic. One of the ways in which part of the existing stock of 90 crores can be used is to reduce the volume of the Note issue under 10 rupees, and allow silver to circulate in its place—a policy which, as regards the smallest Notes, the Government of India is already carrying out. They are retiring the one-rupee Note.

12833. Do not you think it is desirable to foster the Note circulation in India and to increase it as much as possible?—I do not know that it is very desirable to encourage the use of very small Notes because they are so expensive to maintain from the standpoint of the issuer. I think the use of Notes over 20 rupees convertible into gold on demand should be encouraged, but I see no very great reason to encourage the use of small Notes.

12834. What about five-rupee Notes?—I should feel inclined to say that up to five rupees silver is just as convenient as gold, including a five-rupee piece. In any case the cost to the Government of the small Notes is out of proportion, I should argue, to their convenience to the public.

12835. There were some estimates made out of the comparative cost of rupees and one-rupee Notes. The figures were not very reliable, and it is perhaps an open question which is the more economical, but I have never heard it suggested that five-rupee Notes were not cheaper than silver rupees?—It all depends on how you interpret that phrase. I was not suggesting that to print a five-rupee Note cost as much as the silver content of five rupees. I merely suggest that if you have a stock of five-rupee pieces, the alternative to using them as currency being to sell them at a loss and maintain in circulation five-rupee Notes as well, then it is better to withdraw the Notes and circulate the coin.

12836. In the present temporary circumstances of India?—Yes. I am bound to say I do not very much believe in the circulation of Notes of a smaller denomination than five rupees.

12837. It has been represented to us that the circulation of small Notes accustoms people to the use of Notes and leads to the greater use of Notes of a larger denomination. What is your view about that?—I think there may be something in that. I do not know. I always feel impressed by the fact that the English 10*s*. note is always very dirty and torn, and it is rather an inconvenient note to use for the purpose. But there may be something in the idea that the use of small Notes encourages people to use larger ones.

12838. We have been given statistics from India to show that the use of the one-rupee Note actually stimulated the use of ten-rupee Notes?—I do not know whether those statistics were drawn from the war period. I should be rather sceptical about applying war arguments to the post-war period, because Government found it rather difficult to maintain a silver rupee circulation during the war, and people probably had no alternative except to accept what they could get.

12839. That was not the tenor of the evidence we got?—I am not disputing the evidence. I merely say I remain rather unconvinced that it is absolutely necessary to maintain, even for educative purposes, a Note as small as five rupees.

12840. You told the Chairman that you had accepted the estimate given from India of 100 millions of gold as the amount required to introduce the gold standard?—I said I accepted that as the official figure of the amount of gold required under the proposed scheme. I do not myself regard 100 millions in the next ten years as necessary for the introduction of the gold standard.

12841. You consider that figure excessive?—I consider it excessive, yes.

12842. Would not your scheme of forcing all future additions to the currency to be made in gold, increase the gold requirements?—I am sorry. I did not want to convey the impression that I want all future additions to the currency to be made in the form of gold. All I suggest is that in the transition period—

12843. I mean in the transition period?—For a period which ought not to exceed five years, but Sir Henry Strakosch pushed me so hard on the question of the silver hoards that I suggest that in the interim period probably the quantity of gold which may be imported into India to fill up the gap is not as large as I thought it would be. The quantity of gold would be even lower than I suggest if it is true that there are 200 to 250 crores of rupees in hoards.

12844. How would that reduce the amount of gold required?—Because I regard India, as every other country, as requiring a certain annual increment of currency if trade and population expand. If you restricted the existing volume of currency in the way I suggest, the only increment would be provided partly out of hoards and partly out of an additional tender of gold to India. You restrict the fiduciary issue and allow any gap in the circulation to be met either by the coinage of gold coins (which I do not restrict in any way) or by the tender of gold against fiduciary currency. The only way under my scheme in which in fact the total circulation could increase is by the coinage of gold pieces. That is my scheme. I have been told that in fact the total volume of rupees not in circulation but in hoards is much larger than I had assumed. It is as much as 200 to 250 crores. So I would suggest, if you were to starve the circulation by not issuing any more fiduciary circulation, that the increase in the currency due to a normal increase of trade and of population would be met partly by the coinage of gold pieces and partly by the re-emergence from hoards of hoarded silver.

12845. The gold pieces would have to be provided by imports of gold?—Yes.

12846. And that would increase your gold requirements?—To the extent that they were necessary.

12847. The silver coming out of hoards would not in any way reduce the amount of gold required?—There I differ. I feel the total demand for currency in the country, even when its trade and population is expanding, is not indefinite, and consequently if you increase not

the absolute figures of the currency but that portion of the currency which is actually used as such within a given period of time, you do reduce the quantity of other currency that you want; that is to say, if the demands of trade and population in India are met by currency which is now hoarded and playing no part in the actual transfer of goods and services coming out and playing a part, the requirement of gold would be *ipso facto* diminished.

12848. But if gold is required to take the place of that currency to enable it to come out, how does that reduce your requirements of gold?—I do not believe that gold would be required to bring the currency out.

12849. What do you think would happen to the hoards? What would the holders of them put in instead of silver?—I would suggest that if you were strictly to limit the new currency issued by the Government of India itself you could squeeze the hoards a little bit. People would in fact fall back on the hoards if they could not get currency elsewhere.

12850. You mean the size of the hoards would be reduced?—Certainly.

12851. By forcing up the value of the rupee?—Certainly.

12852. And either lowering prices or forcing up exchange?—If you forced up exchange you would have some gold coming in, of course.

12853. If you contract the currency to the extent that you force it out of hoards, you must surely either lower the prices and force up exchange, or bring in gold to raise the currency to the level required to keep prices stable?—Certainly. I have never denied that my scheme involves the possibility of prices falling in India enough either to bring the currency out of hoards or to attract gold. In fact, that is the essence of my scheme.

12854. What I am trying to get at is how the existence of these hoards, and the forcing of silver out of hoards, would in any way reduce the requirements of gold, because if you put a scarcity value on the present currency you must either force up exchange or let gold come in to restore the volume of the currency?—May I put it in this way. Supposing you keep the existing volume of Notes, plus silver rupees, fixed: there is then in consequence of the normal growth of population and trade in India an increased demand for currency. If there are no silver rupees in hoards at all, exchange will rise to gold import point. Gold will be presented to the Mints, and 20-rupee gold pieces will be in circulation. That is one alternative. The other alternative is that the quantity of silver in hoards is very much larger than I anticipated. In that case, since the population is actually demanding a larger quantity of media of exchange in the shape of coin under 20 rupees (because the mass of payments is under 20 rupees) that will bring silver out of hoards.

12855. Without replacement?—Without replacement, and the increase in the total effective circulation as distinct from the total volume of rupees in existence will, by satisfying the Indian demand for currency, reduce the total quantity of gold imported during the same period of time.

12856. Why do you say that the rupees would come out without replacement?—Suppose I have a hoard of a lakh of rupees—100,000 rupees—and other people want small change, and want those rupees. Iwould not give them those rupees out of my hoard without putting something in in their place?—Of course it does not work quite in that way.

12857. I want to reduce it to the simplest terms in order to follow out your argument?—I should be inclined to argue that if there was a shortage of currency in India some prices would fall, including the prices of certain goods and the prices of certain services, and that under those circumstances it might pay individuals better, who possess a store of rupees, temporarily to withhold the sale of their goods and instead put into circulation some of their hoarded Notes. After all, if the prices of certain things in India do fall, that is equivalent to saying that silver rupees have a higher purchasing power.

12858. Then we come back to the same point, do we not?—If you contract your currency and force down prices you will either force up exchange or force imports of gold?—I am not in the least denying that you might not have both events taking place at the same time. You might have a slight fall of Indian prices, silver coming out of hoards, and at the same time a margin of gold being imported. I do not exclude that; but I would say that the degree to which the new supply of media of circulation is composed of gold or of silver depends partly upon how much silver there is in hoards and how much of the hoards would come out.

12859. I will not trouble you further on that point. In paragraph 9 you contemplate, I understand, selling off the whole of the surplus rupees in the currency reserve after providing for the retirement of the small Notes?—Not entirely. I make the suggestion, either in that paragraph or in the previous one, that a certain quantity of silver would always have to be maintained by the Currency Department, and that only the difference between the silver required to replace small Notes, and the silver required permanently—say 20 crores of rupees—should be sold. I say 50 crores within the next five years. I have allowed 20 crores for the small Notes plus another 20 crores for conversion purposes for the higher denomination of Notes.

12860. You allow 20 crores for that?—I allow 40 altogether from the 90 which would not have to be sold.

12861. It was suggested by some witnesses that 20 crores was too small a figure; but I will not trouble you with that point?—I should be very glad to hear that it was. I am very anxious to avoid upsetting the silver market.

12862. (*Sir Reginald Mant.*) It has been suggested that we ought to keep a minimum of 40 crores.

12863. (*Sir Purshotamdas Thakurdas.*) In the latter part of paragraph 1 of your memorandum you give three reasons why you recommend a gold standard for India. The first of these has been called a sentimental reason. I do not know whether that has for its basis the fact that as gold standard would meet the wishes of the people of India it would inspire greater confidence on their part in the currency system of the Government of India?—I based my opinion partly on the fact that such Indian literature as I have read on this question has constantly harked back to the Fowler Committee and its recommendations for a gold standard; partly upon press cuttings of the Indian evidence given before this present Commission in India itself, and partly upon what I have regarded as a fairly notorious fact, namely, that in fact Indian public opinion did demand the gold standard. I am not in a position to say that Indian public sentiment does demand the gold standard, but I take it as a fact.

12864. You recommend compliance with it because that compliance would inspire greater confidence on the part of the people in the currency system of India?—I do not know that in fact confidence in a currency is really dependent, in the long run, on the form which that currency takes, but rather upon the stability in its value. I should not myself argue that one

ought to introduce the gold standard because in the long run Indian public opinion would have greater confidence in it than it would have in the gold exchange standard. I would argue the case on the ground that Indian public opinion does in fact want, and that, as far as one can see, no very great dangers would arise anywhere from the introduction of the gold standard.

12865. You attach so much importance to compliance with the wishes of the people in this matter that, irrespective of the reason behind it, if it did not do any harm you would fall in with their wishes?—Yes, I think I would.

12866. It has been pointed out that after the war people in Europe and in America have not been demanding gold currency. All the countries which have been named, such as America and England, did have gold currency for decades before the war, when gold currency was within the reach of those countries; and it is only because some of these countries cannot afford a gold currency that they are compelled to go without gold currency in circulation and trust a paper currency backed by gold?—It would be very difficult to say what would have happened to the paper currency experiments of the war, and the decline in the demand for gold in circulation which has followed those paper currency experiments, if the world had not had a gold standard with gold in circulation in pre-war years. The extent to which gold was actually in circulation in different countries varied very considerably, even in pre-war times.

12867. The extent to which it varied was after the people had satisfied themselves that gold was available whenever they demanded it, and they therefore preferred the more convenient form of currency, namely, paper currency?—The one succeeded the other. The paper currency of the present day did historically follow the larger gold circulations of the 19th century. Whether the confidence in the present paper currency is in any way due to the fact that gold previously circulated, I would not like to say. After all, such confidence as there is in the present paper currencies is mainly dependent on the question of their proper management. You can get people to believe in any sort of currency provided you keep the value of the currency up in the long run.

12868. Countries which can afford gold currency have taken to gold currency after the war—such as South Africa?—I believe that any country can afford any currency it likes provided it faces the costs fairly and squarely.

12869. The question of facing the cost is one absolutely for the people of a country to decide, is it not?—Yes. If they like they can have an economical currency which is stable. If they prefer some other form of stable currency I think they ought to be allowed to have which currency they like, provided it does not in fact upset the world as a whole.

12870. I take it, then, that you are absolutely against the Government of any country forcing on the people a form of currency on the mere ground that it is more economical?—"Forcing," of course, is rather a strong word. I should be inclined to say that economy in a currency is not the only aspect of the currency which ought to be considered.

12871. Therefore, if anything was done on the consideration of economy alone, you would disapprove of it?—It is so difficult to balance

12872. You would not look upon economy as one of the important factors in deciding the question?—It all depends upon the quantitative result of one's investigation. If the economy was very large on the one hand, and the advantages in other respects were very small on the other hand, then, of course, I should consider economy. One has to weigh the thing, and not overstress any one single factor.

12873. I thought, Dr. Gregory, you said that, from that point of view, you would leave it open to the people demanding gold currency to decide whether they were prepared to bear the cost?—Certainly. If I were arguing this matter out in a sort of general way as a politician, which I am not doing, I should point out to the people that, of course, in the long run, it was desirable that they should have the currency they wanted; but incidentally, if they wanted one particular form of currency rather than another, that choice would involve a certain burden on them which they could avoid if they chose some other form of currency.

12874. You would point that out, and leave it to them to decide?—I would point that out and leave it to them to decide.

12875. We have had mentioned this morning the disturbance in Germany after they took to gold currency in 1873 and thereafter. May I ask if Germany imported gold on private account for industrial purposes on a scale similar to the scale in India?—I can let the Commission have the figures. I am sorry I do not carry them in my mind. The experience of Germany to which I wanted to point was that the German Currency Reform of 1871-73 was built up on the assumption that the proper way to get to a gold standard was to take large quantities of silver out of circulation and replace them by gold. As a matter of fact, I believe in the early stages of the Reform the gold introduced was mainly acquired by the German Government itself; and the danger I wanted to point to was that the German Government started selling silver on a large scale, found the world-price of silver was falling, and discovered also that the whole of the silver market was upset, so that in 1879 they finally decided not to withdraw any further silver coin in circulation and not to sell the remaining stocks of bar silver which they possessed.

12876. I am afraid I did not make myself clear. I wanted to ask whether Germany imported large quantities of gold for industrial purposes and for non-currency purposes before they took to gold standard and gold currency?—For industrial and non-currency purposes? I have not got the figures in my mind. I think there was a certain importation of gold on industrial account, but how large it was I really do not know.

12877. I was only wondering whether you could tell me roughly whether it was on the same scale as India?—I am afraid I could not. I could easily let the Commission have the figures*.

12878. I want now to ask you a few questions with reference to paragraph 5 (*b*), on which the Chairman examined you. Have the large amounts of private imports of gold into India during the last two years actually disturbed any gold centre, either England or America?—No. What I feel about the situation in London, to go back to that point, is that so long as the British sterling prices are not in equilibrium with American and Swedish and Dutch prices, as they certainly were not in the early part of 1925, it does not matter how large your reserve is, because your reserve will always be dissipated in the course of time

of gold resulting from a reorganisation elsewhere and a drain of gold resulting from a lack of equilibrium. If the Indian demand for gold in the last few years had not been as large as it actually was, so long as English prices were not really in equilibrium with prices elsewhere, the absolute size of the reserve might have gone up somewhat, but you would have lost rather more than you did lose actually.

12879. During the last year the Indian demand for gold on private account has been much greater than it has ever been in the last 25 years. In that year it was 79 crores, and in the following year it ran very close to that figure. Have these large imports of gold into India disturbed the money market here, or in America?—I think that is a controversial point.

12880. I wanted to ask whether you do or do not know if these large imports of gold have disturbed the money market here or in America?—I do not know.

12881. No suggestion has been made either by you or by any other witness who has appeared before the Commission that imports of gold into India on private account—that is, for industrial and other purposes—should be in any way checked or controlled. If you are really to consider the interests of the countries holding gold, and from which India may have to draw gold for her currency purposes, may it not be urged that import of gold into India on private account should be controlled in order that the financial conditions of these countries may not be disturbed. Have you any views on that?—I do not think it could be done very easily, to begin with, and in the second place I do not think anybody will argue that in three or four years the world supply of gold will be insufficient. It is when you get to about 1940 that we shall really have to worry.

12882. Regarding the point to which you refer in the last reason which you give in paragraph 1, I should have thought there were two schools in existence amongst experts, one holding that the supply of gold is so small that it is a danger to the world, and the other holding that the supply of gold is big enough for all the requirements and uses of the world?—That is so. At the moment Professor Cassel, for instance, of Stockholm, is the leader of those who think that the world supplies of gold are gradually falling off in rather a dangerous way, and writers like Mr. Keynes are, on the other hand, of the opinion that whatever happens the value of gold is likely to fall.

12883. I may tell you that I do not propose to put any question in that connection. Where experts differ I feel myself rather incompetent to ask questions at this stage. I therefore restrict myself in my questions to you to the problem which faces India. India imports large quantities of gold on private account. No one has suggested interference with it. You yourself do not think it desirable, and you said just now that you did not think it would be easy. The only question then is, what are the requirements of gold for currency purposes in India?—Regarding that part, it has been said that if the Government of India introduced gold currency, rupees and notes may be tendered for conversion into gold coin. You pointed out that the people would want some currency for their daily purposes. Whilst it is a possibility that every piece of currency, either silver or paper, may be tendered for conversion into gold, do you think it is a possibility in which there is anything which should be seriously considered?—I should be inclined to say that if you were absolutely certain that the hoarded silver rupees were in the neighbourhood of 250 crores, and if there was a very strong probability that as soon as convertibility is declared the whole of the hoards would be presented for conversion, it would not make any very great difference to my general attitude towards the introduction of the gold standard; but I should postpone convertibility until, by starving the currency of small change, a large part of the silver in the hoards had dribbled out into circulation in the normal way. That is the difference it would make.

12884. You share the apprehension that, if gold currency were made available, paper and silver currency may be offered for conversion into gold coin?—I have to take the questions which members of the Commission asked, and consider them. I believe that if you restrict other forms of currency sufficiently, the country cannot lose its gold circulation internally or externally; but, of course, the price which it has to pay for retaining the gold in circulation may be a fall in prices.

12885. Gold has been available to the people of India freely during the last two years, or practically ever since 1921?—By Government.

12886. No, by private import. They have been able to buy it freely and to get it at much cheaper prices than they used to get it before the war. Therefore the requirements of the people of India for gold have been, may one safely say, fulfilled from year to year? Do you apprehend any reason for people rushing for gold if the Government put up a gold coin?—No, I do not apprehend it. I think it is a possibility, but whether it is a probability is another matter.

12887. In the course of your earlier examination I understood you to say that the ideal system of currency for any country is gold in the Treasury and paper in circulation?—I do not think I did actually say that, but in fact I do believe that that is the best form of currency.

12888. That would be the ideal which you would like India to reach?—Yes. I think I would not like very large quantities of coin actually to circulate, but I do think that gold notes ought to circulate, and that all forms of currency should be convertible into gold.

12889. Would you attach any importance to a suggestion which has been made before the Commission that the giving to India of a gold standard and gold currency may finally lead her to the ideal of gold in the Treasury and paper in circulation?—All these questions involve certain presumptions in regard to the psychology of the average Indian, which I am not in a position to give an opinion upon. I do not know, under the form which the gold currency is to take in the proposed scheme, where you have, in fact, freely convertible paper gold Notes—.

12890. I am sorry I did not make my question clear. I do not expect you to restrict yourself at all to that scheme. I was wondering whether you were in a position to give an opinion from your study of Indian questions. I know you have not been to India and that you may not know the psychology of the Indian, in which case I should have nothing more to ask you?—I simply base my general answer on general considerations. I regard the idea that a country can carry on without any currency at all, because everybody is so anxious to convert the currency it has got in hoards, as absolutely impossible.

12891. We know examples of other countries having gold currency in the past going without it now and using paper currency?—There is a good deal to be said for the argument that if you give people what they want, they very often do not want it afterwards.

12892. Regarding gold in hoard coming out in the case of a bad monsoon, have you heard that before 1900, when there were severe famines in India, silver ornaments were actually sold in

the bazaars of India. Have you heard that?—Yes.

12893. Do you think things would be any different with a gold currency in circulation in case of it being necessary for people to purchase foodstuffs during a famine? Do not you think the people would part with their gold hoards, whether they be gold currency or gold bullion?—I would not for a moment deny that if there was a pressure on the average person to get rid of his hoard, he would get rid of it. I have been maintaining that point against another member of the Commission. What I do rather doubt is that, supposing there was an immediate and urgent need for the export, let us say, of 50 million of rupees in gold to the West to meet temporary deficiencies in the balance of trade that then you could immediately get these rupees out of circulation. I do not for a moment deny that pressure on the population generally would get money out of hoards.

12894. Such money as they may have in such form of currency in which they have it—gold?—I doubt very much, from the standpoint of the Governor of the Central Bank, whether that would be of very much assistance in a sudden crisis.

12895. Is the rupee of very much assistance to the Central Bank in a sudden crisis?—No. I do not think this question affects the choice of the standard in any way.

12896. I see in paragraph 2 of your memorandum that you deal with the ratio. You are in favour of the existing ratio of 1*s* 6*d*.?—Yes.

12897. I daresay you remember that the Fowler Committee recommended 1*s*. 4*d*., and actually called it "a permanent ratio" for India?—I do not recall that fact, but I will take it from you.

12898. May I ask you as an expert on this matter from the technical point of view, what importance you attach to the word "permanent" in that Committee's recommendations?—I should be inclined to say that the Fowler Committee had not considered the possibility of a world-war and a complete disorganisation of currency conditions for ten years.

12899. Would you agree that the word "permanent" has this significance—"not liable to change if a change can be avoided"?—Certainly. If I had been a member of the Fowler Committee, considering the rupee had been in the neighbourhood of 1*s*. 4*d*. for six years, I would certainly have said that that was the best figure you could have for permanent stabilisation purposes.

12900. The Fowler Committee recommended this as a permanent ratio. The word "permanent," if it has any meaning at all, means that it is a ratio which should not be liable to change unless it was unavoidable?—Yes.

12901. If it is contended to-day that 1*s*. 4*d*. worked well for India till 1914 and could have been maintained after the war but for the hasty legislation of 1920, would you say that the Government are justified in avoidably going past the ratio which was indicated by the Fowler Committee as the permanent ratio for Indian exchange?—I do not think the considerations which you raise really affect the situation very much. I would be inclined to say with you that it would have been better, after the failure of the 1920 experiment when the rupee actually did touch 1*s*. 4*d*., to stabilise at that rate, because it was a traditional rate ; but, in fact, the Indian Government missed the opportunity. The rate of 1*s*. 6*d*. has been kept in force long enough now to make customary prices level in India in equilibrium with it, and I doubt the expediency of reversing the situation again and causing prices to rise by about 11 per cent.

12902. You say it has been in existence long enough. What is the period you have in mind?—The 1*s*. 6*d*. has been in existence about 18 months now, has it not?

12903. No, only for one year, because 18 months ago the 1*s*. 6*d*. was 1*s*. 6*d*. sterling. It was about 1*s*. 4*d*. gold. In fact in September 1924 1*s*. 6*d*. sterling was 1*s*. 3⅞*d*. gold?—It will take some time before this Commission reports, and it will take some time for the British and Indian Governments to consider their position, so that the 1*s*. 6*d*. gold rate, even although it has only been in force for 12 months, may have been in force for a good deal longer by the time action is taken on the recommendations of this Commission.

12904. Supposing between now and the time when the Government of India are in a position to take action, the rate either drops to under 1*s*. 6*d*. or goes considerably over 1*s*. 6*d*. What would you say should be the rate to be stabilised?—One's judgment of 1*s*. 6*d*. as a stabilising rate depends upon the success of the Indian Government in keeping the rupee at that rate. If it is allowed to drop to 1*s*. 4*d*., or is allowed to go up to 1*s*. 8*d*., and so on, you have no indication from the exchange that there has been any sort of equilibrium between internal and external Indian prices.

12905. (*Professor Coyajee.*) There are only two questions I want to ask. One arises from an answer of yours to Sir Reginald Mant. In the first place, the only way to familiarise a very poor population with paper currency is by the use of very small Notes, is it not?—I think I would accept that, but I should argue that, in the present circumstances of India, the educational process has gone on long enough to make it unnecessary to retain the 5-rupee Note.

12906. Five rupees would amount to half a month's income of a great many people in India?—Yes. I noticed from the last report of the Controller of Currency that the aggregate volume of 1-rupee Notes, plus 5-rupee Notes, is such a relatively small part of the total circulation of rupees that I doubt whether it plays very much of a decisive role in the education of public opinion with regard to Notes generally.

12907. My second point is with regard to the effect of the starving of currency during the transition period of the hoards. Owing to the starvation of currency the general rate of discount would rise in the country, would it not, and therefore those holders who were in touch with the money market might bring out some of their rupees?—It might have the effect, the Indian Exchange Banks and the Imperial Bank finding that their volume of new deposits was falling off, of raising the discount rate. I had not thought of it in that way. I was thinking of the direct effect on the people who in fact had no Bank deposits.

12908. Only those hoarders who were in touch with the money market would bring out their rupees, because generally, the hoarder is not the *homo œconomicus;* he is not in contact with the money market, and therefore the effect of hoards would be small even on a rise of discount rate?—I suggest that even the person who is not in touch with the Indian market has in fact to make certain customary dues and payments in rupees. If you starve the currency, and if, consequently, the remuneration for goods and services which he sells falls off, and if his payments continue at the old rate, as in certain cases they would undoubtedly have to do, the way in which you would get the rupees out of hoards would be by his having to take them out in order to meet his requirements.

12909. But if prices fall the money value of his requirements would fall?—Some of them would, but not all.

12910. Then as to one question put by Sir Purshotamdas Thakurdas about a permanent ratio. The word "permanent" would mean, so far as the word is used by the Committee, so long as the main factors affecting the exchange remain constant?—Yes.

12911. (*Mr. Preston.*) In paragraph 2, you make the statement "The present rupee stock, including those in the currency reserve is only about 12 per capita. I suggest that this is not an amount which, provided that the total is not increased during the transition period, could possibly imperil the transition to the gold standard." We have it in evidence that the working minimum, which I think you have accepted this morning, should be round about 40 crores of rupees?—In the paper currency reserve, yes.

12912. Our present holding in the paper currency reserve is about 82 crores. If we deduct 40 crores we get 42 crores left. We have it in evidence that the annual absorption of coin for the country is nine crores?—I take that.

12913. Then the balance, not coining any further rupees, would barely give us five years' working?—Quite so.

12914. From that point of view, this would remove the whole of that 82 crores out of all calculations of what I might call the silver selling bogey?—I agree. I do not think it is *absolutely* necessary to sell any silver at all. I was merely trying to meet the case in the proposed scheme. If it really is the case, as has also been argued, that no silver would come out of the hoards, the absorption out of the paper currency reserve would be the more rapid. I quite agree there.

12915. Will you remove from your mind for a moment the proposed scheme. It was made evident to you that the general weight of opinion in India was for a gold standard, but that that general weight, whilst it called for a gold standard, equally recognised the fact that to attempt to demand the 100 million sterling of gold called for under that programme would be to the detriment of India in every way. That general opinion, also, was fully prepared to wait for a gradual accumulation of gold for the purpose of leading up to an ultimate gold currency, should it be needed. Accepting that as a fact, would that go to strengthen your statement in paragraph 3, "Taking a world view, I cannot regard a demand for an extra £100 millions of gold on the part of India as likely to imperil the general stability of world credit in any way."?—Certainly. I think the only cause why one should hesitate in accepting the proposed scheme, or any other scheme, is the drain which it might be anticipated would be caused on world supplies of gold, and the shock which it might give to the world market for silver.

12916. Does that very anxiety on the part of India not to disturb or in any way to menace matters in home markets, or prices to her own detriment equally strengthen, as applied to India, the statement which you make in paragraph 5, to the effect that "The introduction of the gold standard does not logically or practically involve the immediate circulation of large quantities of gold. What it does involve is the extension of the use of gold in the future."?—Yes. I tried to point to the fact that I believe the proposed scheme is built up on old-fashioned assumptions, and that the 19th century ideal method of introducing the gold standard is one which ought not to be adopted now.

12917. Would it be a correct assumption to make that a gold standard as a system is much less amenable to mismanagement than any other system?—Yes. I think it is desirable to admit that in the modern world even the gold standard contains an element of management, because there are always non-gold elements in the currency: but a fall in the exchange and an export of gold is, I think, the best test that the currency is being mismanaged at a given moment of time.

12918. Then may we take it as a general assumption, as applicable to India, that a gold standard is a safer standard to apply at the present time in spite of the merits of any scientifically managed currency?—I prefer the gold standard to other forms of currency, undoubtedly.

12919. (*Chairman.*) With reference to your suggestion that the pinch for currency will bring hoarded rupees out of their hoards, it was given to us in evidence that a very large proportion of silver hoards are held by the quite small cultivator and poorer classes, who, in a year of boom and good monsoon, put aside a little reserve in view of the possibility of a bad monsoon to come; but in view of the extreme variations due to the accidents of the monsoon, and the very small margin above the starvation level of a large proportion of the Indian cultivators, it is really a matter of life and death to the small Indian family to have this small reserve in a good year as against a bad year. If that be so, do you think a mere currency scarcity and slight fall in prices would be adequate to effect a change in such a vital habit in the uneducated Indian, and induce him to stop keeping his reserve and make him spend his money on articles which look cheap?—I do not suggest for a moment that it would result in an immediate dissipation of the whole of the hoards. I suggest if there was a real pressure in the shape of restriction of currency some of the hoards would come out. May I say that I do not build my case for the restriction of currency on the possibility that silver might come out of hoards? I want currency to be restricted because I want either silver to come out of hoards so as to prevent it from being presented for conversion into gold when the gold standard is introduced, or, alternatively, that gold should be allowed to come in and that it should not be impeded from coming in by large additional supplies of rupees.

12920. (*Chairman.*) Thank you very much indeed for your full assistance this morning and for your helpful memorandum.

(*The witness withdrew*)

# THIRTY-EIGHTH DAY.

## Monday, March 22nd, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*.)

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON, MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER.
Mr. A. AYANGAR. } (*Secretaries*.)

Mr. JOHN MAYNARD KEYNES, C.B., called and examined.

12,921. (*Chairman*.) You have been good enough to come and help us on the subject of our enquiry this morning. You are a Fellow and Burser of King's College, Cambridge, Editor of the Economic Journal, and Secretary of the Royal Economic Society, and you were a member of the Chamberlain Commission in 1913-1914?—Yes.

12,922. You have been good enough to let us have a short memorandum* of the principal headings of your evidence. What is your opinion as regards the relative advantages of a gold currency standard and a gold exchange standard?—I am aware of none except the political advantage of placating Indian opinion. I have seen arguments as to the likelihood of a gold currency bringing gold out of hoards. It is the only solid argument I have seen in favour of a gold currency. It is difficult to express an opinion on that, but I see no reason to accept it. A gold currency might quite possibly have the opposite effect in that gold would be a little easier to obtain than otherwise.

12,923. By providing more gold you might encourage the tendency to hoard?—You would increase the facility for obtaining gold in small quantities.

12,924. As a matter of fact, at present there are no difficulties in obtaining metallic gold for ornaments, etc?—I am not well informed as to the size of the units in which gold can be conveniently purchased. I was under this impression that a gold currency might slightly facilitate the obtaining of gold in very small quantities.

12,925. By increasing the facilities for obtaining the smallest possible unit in the shape of gold coin?—Yes.

12,926. The smaller the gold coin the greater that opportunity?—Yes.

12,927. What are the possible disadvantages of a gold currency system such as is proposed in the memorandum which has been submitted to you for your consideration?—I hold strongly that if there are no great disadvantages and if the matter is one relatively of indifference, then it is better to placate Indian opinion by conceding what is desired even though one may think oneself that Indian opinion is misguided. It is not so much a question of deciding what is ideally best, in my opinion, as in judging whether there are grave disadvantages in the proposed scheme. The measure of these possible disadvantages seems to me to depend, first of all, upon the effect on the international value of gold; secondly, the effect on the London market; thirdly, the effect on the international position of silver; and fourthly, the financial cost to India.

12,928. Take these in order—first of all, the effect on the international value of gold.—I do not lay great stress on that. The figure of £103,000,000 has been suggested. I think that could be spared from the world's gold reserves, and need have no material effect on prices or on the supply of credits. I emphasise the word that it *need* not, because I quite agree that it might. It would depend upon the policy pursued. I mean that I see no reason why a policy should not be adopted which would prevent a gradual withdrawal of that amount of gold from having any sensible effect. Gold is now not used in circulation to any extent worth mentioning anywhere. The amounts of the gold reserves of the world are arbitrary within wide limits. There is not much reason why they should be the present figure rather than another figure. We could support a much higher price level with the existing reserves, and equally, we could also have a much lower price level without materially affecting them. The price level depends not on the quantity of gold in the world, but on the policy of the central banks as regards their reserve proportions.

12,929. The policy by which the disturbing effects might be avoided would be the policy of the central banks of the world?—Yes.

12,930. And it is they who might, in your opinion, avoid the disturbing effects by reducing their reserves.—It seems to me that it might easily be done because this sum is not very large spread over some time in relation to the normal movements of gold.

12,931. You said that in your opinion £103,000,000 could be spared from the gold reserves. Where would it come from, in the first place?—It would probably come first of all out of the current production of gold. There is a production of gold at present in excess of the non-currency demands, so that in the absence of a scheme of this sort I should expect the bank reserves of the world to be on the increase, so that part of these requirements could be provided merely by avoiding an increase in the gold reserves in the banks. It is suggested in the memorandum this would be spread over ten years. If it is spread fairly evenly over the ten years I should not be surprised if the whole amount could be provided in that way. If the earlier years took more than their quota from the £103,000,000 it might be necessary to have some reduction in the reserves, but it would be nothing worth mentioning in relation to the aggregate of those reserves.

12,932. Is the general question of the future of the world's gold supply a matter on which you feel able to assist us?—Do you mean the future production of the mines?

12,933. The relation between the world supply and demand for gold in the foreseeable future.—I take a heterodox view of this. I think it is a matter devoid of importance, because I think the world's demand for gold is just whatever the world chooses. The world's demand for gold is not a fixed demand.

* Not printed.

Supposing the United States Federal Reserve Bank decided to work to a normal percentage of 80 per cent., you have one demand; and supposing it works to a normal percentage of 60 per cent., you have another demand; and similarly in the case of the Bank of England or the Reichsbank, or the Bank of France. I cannot conceive but that these banks will in fact, over periods of time, adjust their proportions to whatever the supply is. So that I do not regard demand as anything which exists independently of the supply, but as something which is so artificial that it will adjust itself, or can adjust itself if skill is exercised, whatever the supply turns out to be.

12,934. Have you any opinion about the other side of the book,—the question of supply?—I do not think my opinion is worth much on that.

12,935. That is not a matter which you have gone into?—I know no more than is common knowledge.

12,936. Turning back for one moment to the demand and the question of the United States, in your opinion is it a practicable policy which can be foreseen in the foreseeable future that the central banks of Europe should be able to make substantial reductions in their proportion of reserves, particularly taking into account the effects of that upon the general confidence in the present state of the world?—I think it is entirely a matter of taste. In our own case the present fixed amount of the fiduciary issue of the currency notes and the Bank of England together has the effect of locking up and rendering completely useless by far the greater part of our gold. It is just a matter of taste how much of our gold we choose to make useless. If we choose to make useless £25,000,000 or £50,000,000 less in the course of the next few years, we could find nearly all the gold required by India in excess of the current production of the mines without the loss having any consequences whatever. There is no rhyme or reason behind the present arrangement. It is a matter of taste and convention.

12,937. Shall we say it is a matter of convention; but confidence is sometimes based upon convention and not upon reason?—Yes; but this would not require any such constant convention. The public take what they are told. If the fiduciary issue is fixed at one figure or another public opinion a week later will be just as content with the one as with the other.

12,938. Then the second possible disadvantage to which you referred was the effect on the London market. Will you enlargo on that?—I think there the question depends on the particular means by which India raises, not so much gold, as the resources to pay for the gold. I imagine it is possible that that might be done to a considerable extent by selling sterling securities out of the Indian gold standard or paper currency reserve, or by raising additional loans in London. In that case, if the sales were fairly rapid the strain on London might, in my opinion, be quite severe; but no more severe than from any other foreign loan of an appreciable amount, no part of the proceeds of which are spent in Great Britain. I think, however, that it would be wrong to oppose the change on this ground, or to let it weigh appreciably. It is a consequence and part of the risk of London's undertaking international banking on a gold basis. If India is not free to realise the sterling securities in the gold standard and paper currency reserves absolutely whenever she likes, it is obviously a wrong policy to have such securities as part of the reserve at all. One's banker has no right to complain when one draws a cheque on one's balance even though it inconveniences him, and he knows you are going to spend it stupidly.

12,939. As regards the sale of securities, there might be an analogy between that and a draft upon one's balance, but as regards the raising of supplementary credits, if that were necessary, in London, I suppose the analogy for that would be more in the nature of starting an overdraft?—Certainly I think that new credits are a different question. About that I hold, not only in the case of Indian loans but about all foreign loans, that the principle of the controlling of foreign loans is a right one, and one towards which we shall move. We are at the moment living in a state of reaction against the controls of the war period, and at a time when financial rectitude is believed to be whatever happened in 1914; but that will not last very long.

12,940. As regards the sale of securities, that may be said to be as the right for India?—Yes.

12,941. The raising of credits could never be a matter of right?—No. That matter must be a matter of agreement. I think the Treasury or the Bank of England would be absolutely justified in making difficulties about such a loan, if it appeared likely to embarrass the London money market.

12,942. The parties to the agreement would negotiate from the point of view of their own interests?—Yes.

12,943. Would it be possible to raise credits of the magnitude required directly in London without necessity for the concurrence of New York?—So far as I can see, it would be possible for India to raise the whole amount required in the earlier part of the period at any rate by the sale of sterling securities out of the existing reserves.

12,944. That is £50,000,000 in the first year, is not it?—Is it as much as that? I am speaking subject to correction, because I have not got in my head the total of the reserve.

12,945. £15,000,000 at the outset and £35,000,000 in the first year or two?—Then I think perhaps that is not quite correct. Perhaps you could tell me for my guidance what the aggregate of the sterling securities of the two reserves is? It is £40,000,000 in the gold standard reserve, is not it?

12,946. It is 80 crores?—Then it would go a very long way.

12,947. The schemo which is submitted for your consideration was £15,000,000 required at the time of initiation—that is at the outset—and a further £35,000,000 within the year?—That is in crores or in millions?

12,948. That is £50,000,000 sterling really in the course of 12 months. Does not that suggest that it would be necessary to supplement the sale of securities with credits?—You have got securities for 80 crores and certain sales of silver. It looks to me rather a close thing; I agree that it would be imprudent in all probability to take this step unless you did see your way to borrow something.

12,949. To back it up?—The amount of the loan need not be very great.

12,950. To generalise that question somewhat, do you think it would be possible to carry this policy through without the substantial concurrence of the New York money market?—I think it would be much better to have the concurrence of the New York money market; but it appears to me almost unthinkable that you would secure it because of the reasons which I come to later, of the effect on silver.

12,951. Perhaps that will come out more definitely in connection with your third heading?—Yes; but I concur in the drift of what you are suggesting, namely, that some loan would probably be required, and that London would be justified in making difficulties if simultaneously there were large sales of sterling securities held by India. Therefore, the position of the United States is significant.

12,952. Just before we pass away from gold, I should like to ask you a further question. How in your opinion would any unfavourable consequences react actually upon the interests of the Indian community? Supposing that your anticipations that this drain of gold would be carried out without disturbance were unfortunately not to be realised, and supposing there were to be a disturbance, what then?—In London?

12,953. Yes, a rise in bank rate?—I can hardly imagine that the disturbance would be serious enough to have much reflex on India. I think

that it would not be to the advantage of India that we should have dear money here, but it should not require any very desperate measures on our part. I should have thought it would merely mean that a certain percentage of our normal foreign investment should take this form for a period. It would not mean that we should need to do anything more drastic than to make foreign investments in this form instead of some other form.

12,954. I will put the question rather more clearly. Would the disturbance to the world's gold markets, and particularly in London, be a disturbance which India could afford to neglect, as having no effect upon Indian interests?—If the disturbance was great, it would have an effect on Indian interests; but I should not anticipate a disturbance sufficiently great for it to be necessary for India to consider that from her own point of view very seriously.

12,955. Then with regard to silver, which you mentioned just now, what in effect would be the disadvantages on the international position of silver?—In my opinion the possible effect of the change on silver is much more important and dangerous than its effect on gold. Assuming that the scheme is successful in getting gold into circulation, and that gold replaced silver rupees in circulation in the paper currency reserves, the effect on the value of silver might be disastrous. I suspect that the supply of silver from mines is somewhat inelastic —but you will probably be receiving expert evidence on that from other sources—partly because a large proportion I have heard the proportion of 50 per cent mentioned—of silver is now produced as a by-product of lead and copper. The demand for silver on a large scale is mainly from India and China. If India steps out from under, China will have to choose between doing the like, or suffering a collapse of her silver exchange. I should think it is not impossible that China, faced with the prospect of being alone in the world in the use of silver on a large scale for currency purposes, would be forced to move towards gold. In that case what would happen to the silver? If for several years India was meeting her own normal demand for silver by melting rupees, I should not be surprised to see silver fall to half its present rate in the terms of gold. All the silver interests in the world would be up in arms; and, not the least important, India would by her own act have depreciated by perhaps 50 per cent. the predominent store of value of her own people. This forecast may be over pessimistic; but the figure of 24d. suggested in the Commission's questionnaire strikes me as very optimistic. In any case the proposal now under consideration is obviously calculated to make the price of silver fall seriously. As soon as that is felt, will the Indian public thank the politicians who have been clamouring for it? In short will the present public opinion, such as it is, in favour of the change, be an enduring one? In my opinion India still has a great interest in the stability of the value of silver. For the gold market, as I have already explained, £103,000,000 is no great matter; but for the silver market, the silver in the equivalent value of rupees is overwhelming.

12,956. You say that India still has a considerable interest in the stability of silver. You are referring to the interest in the large amount of silver held as a store of value?—Yes.

12,957. Is there any other substantial interest which is present in your mind?—No.

12,958. You referred to the connection between the price of silver and the lead and copper markets. I wonder if you would amplify that at all, to make it clearer to us how the two will react on one another?—I understand that a considerable amount of silver is now obtained in the course of refining lead and copper. Though this is not the case in all the mines from which silver comes, it is the case in a great number that lead and copper are their main products, though they make their profits sometimes out of the relatively small amount of silver which they obtain incidentally. If silver was to fall in price heavily, it would be a matter of embarrassment to those mines, and would diminish their profits, and might put some of them out of action. But as the value of the silver they produce is not very great as compared with the value of the lead or copper they produce, it would probably have to be a very severe fall in the price of silver before any great proportion of those mines would be put out of action. It might be that the fall in the price of silver would be compensated for by the rise in the price of lead and copper. I am not an expert on this matter; but my impression is that a fall of 20 per cent. in the price of silver might diminish the new supply of silver surprisingly little; so that in order to bring about equilibrium between demand and supply when the Indian demand was removed, a very heavy fall indeed in the price of silver would have to take place.

12,959. It would be against the market both ways? —It would be against the market both ways; and there would be a further aggravating circumstance, you must remember. If a policy of this kind were to be announced, the world's confidence in the future price of silver would be undermined, so that it would become a less eligible article for a store of value than previously. You might, therefore, have a great tendency to sell on the part of people who would otherwise be hoarding silver; with the result that you would not only have the Indian currency demand removed, but you might have a considerable part of the demand for silver as of store value throughout the world removed. It might well happen, when it was seen that the price of silver was doomed to fall, that there would be a strong tendency to change over from silver to gold in all parts of the world where silver is still held in large quantities as a store of value; so that a certain fall in the price of silver might precipitate a much greater fall. If the best opinion held that silver would fall from 30d. to 24d., I should expect that to precipitate such a flood of silver on to the world's markets, and to offer such a strong incentive to bear speculation that at any rate in the first instance, silver would fall to a great deal less than 24d. This seems to me much the biggest point from India's point of view. To introduce this great instability into the silver market, might have consequences of a really disastrous kind, when you consider what part silver plays in the life of India. It is a step which ought not to be taken lightly, but only for very grave cause.

12,960. You referred to the reaction on Chinese trade. Could you explain to us how the full consequences would be realised in Indo-Chinese trade of a fall in the value of silver?—Of course it would make it extremely difficult for China to import until the new equilibrium had been reached. The amount of her own money which she would have to offer for goods in the international market would be very greatly increased; and if China were simply to remain on her present basis, during the whole period of the change, there would be severe obstacles in the way of any manufacturer or trader who was accustomed to ship goods to China for sale there. On the other hand, there would be for the time being an artificial stimulus to export from China, and any markets which were in competition with the Chinese exports would be also interferred with. I have not clearly in mind exactly how far Indian interests are in either of those positions. I know they are to a certain extent, but I am not conversant with the precise figures, which no doubt you have from other sources.

12,961. You suggest that they might be forced to move towards gold? It has been put to us in evidence that China is really incapable of moving in any direction under present conditions?—That sounds to me very likely, but here one is looking forward over a period of ten years. In former days before the war when China was in a more settled

condition, there was a great deal of talk of moving towards gold, and they had Commissions of Enquiry similar to this one. Though I should imagine it is true at the moment that China would be incapable of any change, you have to remember that silver does not circulate in China by edict, but by custom. The ordinary private life of China goes on amazingly unaffected by political events. It is impossible for me to predict in what way a move of this sort, once it had got going, might influence the opinion of the ordinary merchant in China. It would certainly influence it to this extent, that he would be less willing to keep stocks of silver on hand. Like everybody else, he would dislike holding a depreciating store of value, so that you might have a tendency for rich men in China to move over towards keeping their reserve in some other form than silver even if the Government was quite incapable legislatively of taking such a move.

12,962. That would result in what I may call a demand for commercial gold in China?—It might be gold. They might be more anxious to keep their money in the banks on a gold deposit basis. I do not know what form it would take.

12,963. If it took the form of gold, undoubtedly the circumstances would have to be taken into consideration as to how far it would affect the situation as regards the world gold market?—I should think it would. I think one can be sure that the Chinese business men, who are very shrewd and by no means removed from general knowledge on these matters, would not be anxious to hold a depreciating store of value. So that the ultimate reaction of the relative values of gold and silver of a move of this sort on the part of India, if the world took it seriously, could hardly be exaggerated. As I say, I lay much more stress on this side of the matter than on the purely gold side.

12,964. In contemplating that for several years India would be meeting her own normal demand for silver in the way of the rupee, were you considering the suggested possibility of an import duty on silver?—I was not clear what form it would take, but was assuming that in some way or the other the Indian Government, being a seller of silver, would reserve the local markets for its own demand it might be by selling silver a little cheaper than it could be imported, or it might put an import duty on silver—I think that the latter course would have a great deal in its favour. But I do not base my argument necessarily upon such a course.

12,965. Would the import duty serve to protect the value of the Indian holdings of silver against the otherwise possibly inevitable decline to which you referred?—Quite possibly, if it was a very heavy duty it would no doubt protect them to a considerable extent. But there has always been a considerable export of silver from India over the land frontiers, and if people who were accustomed to do that trade were finding that the value of silver in the outside world was very much below that of the Indian silver it would probably affect confidence in the value of silver in India itself. In the case of an article like silver which is largely useless, and is kept as a store of value and not for use, the influence of opinion on its value is of an order of importance quite different from what it is in the case of something which is consumed year by year.

12,966. It has been suggested to us in the evidence that the desire for silver is so strong, and the habit of using silver as a store and for ornament is so inveterate, that the cheaper silver is the more it will be bought; and it does not matter how far it falls in that case. Does that seem to you to be a circumstance which should be taken into consideration?—I think that is one of the hoary old maxims about currency affairs which are all false. It is always said that people are very conservative in matters of money, and will never adapt themselves to a new situation. All experience, in my opinion, shows to the contrary. It is most astonishing to see the way in which the public will rapidly adapt themselves to a new situation in currency matters. One example which always struck me, because it was always quoted in advance to the contrary, was that of Egypt. Egypt was always represented as the one country which would never handle anything but hard metal; in fact, there was no country in which paper currency was introduced more easily during the war period.

12,967. Although the public may be uninstructed in India, you have a large professional class of extremely intelligent dealers and brokers.—No one is uninstructed in that sort of matter.

12,968. Not even the Indian ryot?—I should doubt it.

12,969. You say all the silver interests of the world would be up in arms, but I gather one must add to that, in view of your previous analysis, in common interest of the people as well?—I include those as silver interests.

12,970. Would that have special relation to the reception of any proposals in the United States?—Yes.

12,971. You have already mentioned in the course of a previous reply that that is a matter to be taken into serious consideration?—Yes.

12,972. Would you explain that and tell us what you think about that matter, as to what the view of the United States would be on the subject?—I think great play would be made in the United States with the history of the Pittman silver. It would be pointed out that when India was in difficulties in this matter, the producers in America were prevented from obtaining profits they might have obtained, and the American Government behaved with extreme handsomeness towards India. In view of that, a move tending towards the depreciation of silver would be regarded by American opinion as something which India was certainly entitled to do, but not something for which it was entitled to invite American assistance. In the present state of opinion in America I am sure there would be a difficulty in raising a loan—which would not anyhow, be particularly attractive to America from the Americans' selfish standpoint—for the express purpose of making difficulties for two of America's leading products.

12,973. To put it baldly, though the gold interests in the United States might see no objection, the silver, copper, and lead interests would have a very strong objection?—Yes; moreover for the gold interests the project would be a matter of indifference, because unless it is going to increase materially the value of gold, it does not do them any good and, as I have explained, I see no reason why it should materially increase the value of gold.

12,974. The fourth disadvantage to which you referred to the expense of financial cost to India.—What it would cost India depends upon the price she realises for her silver, and the price at which she sells out her sterling securities or is able to borrow. Taking the simple question of silver, if I am right in supposing that the release of the silver in 103,000,000 pounds' worth of rupees might halve the price of silver, I calculate very roughly that the gold required would cost about three times the value of the silver released; that is to say, the change over would cost India somewhere about £67,000,000 in terms of real resources. If we suppose that India has £67,000,000 of real resources to play with, can one easily conceive a more useless way of using it? Are there not, in the opinion of everybody, a hundred better ways of employing such a sum? The proposition, therefore, impresses me as being a plan to expend some £67,000,000 in destroying the purchasing power of the favourite store of value of the mass of the population. Such a step, with all its risks and unforeseeable consequences, strikes me as very foolish indeed, and perhaps dangerous—sufficiently foolish and dan-

gerous to justify the Government of India in turning it down. I think it would show want of courage on the part of the British advisers to accept a proposal contrary to Indian interests for fear of being supposed to refuse out of regard for British interests. We have the curious position that probably hardly any Englishman conscientiously believes that this scheme is in India's interests, but a good many, from praise-worthy motives, are prepared to support it out of deference to what they believe to be misguided Indian opinion. The danger is, not that British opinion will be unreasonably allowed to ignore Indian opinion. The danger is that misguided Indian opinion will be allowed to have too great a weight. Of course, it is possible, and it is not improbable that the attempt to put gold into circulation in India would prove a fiasco, so that the gold currency would be introduced normally as a gesture without having important practical consequences; but it would not be right to gamble on that probability just in order to make a gesture.

12,975. As regards that last point, would it be possible to announce such a policy without at any rate some of these reactions on the silver market to which you have already referred?—No, I think that is true. I think that even the announcement would produce some of the consequences. But if in fact the new scheme did not come into operation to any great extent, those consequences would work themselves out before long.

12,976. No important expense would be incurred, as you suggest, if this scheme were to prove a fiasco?—No.

12,977. The only expense incurred, I imagine, would be if credits had been established beforehand, which would cost something?—Yes. But it seems to me it would be rather a strange policy to introduce a scheme of this kind in the hope that it would prove a fiasco.

12,978. Casting back for a moment to your figure of £67,000,000, perhaps it is rather a question of mechanism and detail, but could you explain to us in what form that expense would come home to roost on the Indian taxpayer?—It would come home to roost in that he would not receive the interest on the sterling securities now held if he sold them; and he would have in some shape or form to pay interest on any loan which was raised.

12,979. What in your view is the general ideal to set before oneself in an attempted solution of any problems of Indian currency?—Well, I should like to say in conclusion that stability of internal prices in India is, in my opinion, much more important than stability of foreign exchange, though I agree that great instability of the exchange is in itself a disadvantage. I attach very little importance to a legislative enactment fixing the rupee at 1s. 6d. In so far as the stability of foreign exchange is important, while there is not much to choose between a gold standard with gold circulating and a gold exchange standard, some advantage lies with the gold exchange standard. Some sales from time to time of sterling securities by the Government of India in order to adjust the exchange position can be effected with less disturbance to the internal situation than the withdrawal or the pumping in of the equivalent quantity of gold. Above all, the gold exchange standard, whilst it is open to most of the objections against a pure gold standard, does at any rate secure most of the advantages, such as they are, as economically as possible, and without a waste of resources.

12,980. May I ask you a question on that, before passing on? Would you describe what are the principal advantages which can be gained by the exchange standard as well as by a gold standard with gold currency?—The linking up of India with the prevailing standards of the outside world, and the prestige attaching to a currency which is interchangeable in terms of gold.

12,981. I am afraid I interrupted you just now?—I was going to say that, if my advice were asked, I should advise the Royal Commission to do nothing whatever. I think that the present situation in India is the best possible obainable at the moment. That is to say, there is for practical purposes reasonable stability of the exchanges, and India maintains her freedom in the event of future happenings rendering any alternative course more desirable. I think that the present moment is a bad moment for making a change, and that almost any positive course recommended now is likely to be bad. We are at the moment in a state of reaction on currency matters, not at all to be unexpected after the debauches of the war and post-war period. The world has seen the disadvantages and the abuses of unregulated currencies, and it is trying to seek salvation in conservatism, in going back, not in my opinion to the reality, but to the appearance of what existed in pre-war days. It is not impossible that out of this something wise may be evolved, but it is going to be very difficult. We are not at the end of currency discussions, but at the beginning of them. The future currency of the world is going to be determined not by what has happened in the last two or three years, but by what is going to happen in the next 10 years. It is impossible to say what the experience of the countries which are going over to the gold standard is going to be. I think that India will be well advised to hold her hand until some experience has been gained. At present, in the event of serious fluctuation in the value of gold, either upwards or downwards, India is free to avoid the disadvantages of that fluctuation just as she avoided a part of it during the boom and the slump of 1920 and the subsequent years.

12,982. She avoided them by allowing a change in exchange to a greater extent?—Yes. In my opinion India should pursue her present course—that is as long as nothing special happens in the outside world—of maintaining practical stability in the neighbourhood of 1s. 6d.; of in any event not allowing any sudden change from 1s. 6d.; but in the event of gold becoming unstable in the outside world—and no one can say it will not—of maintaining legislative freedom to adjust her exchange to the events in the outside world, and so preserving the stability of her internal prices.

12,983. The present state of affairs has been strongly criticised before us on the ground that it allows all matters of currency policy to be entirely in the arbitrary discretion of the currency authorities—at present the Government of India and the Secretary of State in Council?—If you include in the term "Authorities," whatever Central Bank authority is in control of India, I should say that would always be the case. The notion that gold standards work by themselves without interference by the authorities is a myth.

12,984. It is said that by adopting some regularised form, either of gold standard or gold exchange standard, the system can be made to work automatically, and less at the discretion of authority than at present?—The exercise of authority would be more concealed; but I think the course of affairs will still be governed by the policy of the Secretary of State in buying and selling bills, and by the policy of the banking authority in the matter of its rate of discount, and its willingness to increase or diminish the basis of credit.

12,985. Supposing that a currency system is adopted under which the currency authority accepted the obligation to buy and sell some means of international payment at a fixed price, would the Secretary of State's operations still continue to affect the matter?—I cannot see that the essential situation would be any different from what it was in the years immediately preceding the war, when the Secretary of State, or rather the Government of India, was under a legal liability one way to maintain fixity, and had a fairly binding practice in the other direction also.

12,986. It is said that there was a practice, but it was by no means binding; and that if the legal liability is made to pull both ways, it will largely reduce the opportunity for the exercise of discretion by the currency authority. That would be so, I imagine, would it not, although it would still leave the element of management which is contained in the operations of the banking authority?—Yes, I think it somewhat reduces it. Supposing it is held that the most important thing about currency is that no element of human purpose or contrivance should enter into it, I think this does somewhat diminish the element of human purpose and contrivance; but in my opinion it would be just as foolish to try and get rid of purpose or contrivance as it would be in such a matter as how much land should be ploughed for wheat in a year. It is just as silly to say you will have your currency governed by blind force as to say you will have the amount of your harvest governed by blind force.

12,987. In considering that general proposition, do you think that any special consideration should be given to the circumstances of the history of Indian currency, and—what is no doubt the fact—that some of the circumstances of the history of Indian currency, have produce a sort of special lack of confidence in currency regulation?—I should have said precisely the other way. India has had a considerable experience of regulation; and while criticism has been levied against the responsible organ of the Indian Government, just as against every other organ of the Indian Government, in fact India has done extremely well. The currency history of India for the last 15 years or so is more favourable than that of any other country in the world. India has actually had experience of these things being done without anything very dreadful occurring, but quite the contrary.

12,988. Would the opinion you have just expressed affect the question of the possibility of entrusting larger powers in the control of Indian currency to a central bank?—I have always been very much in favour of that. I wrote a memorandum on a central bank for India for the Chamberlain Commission, and the views I expressed there I still maintain.

12,989. Then I imagine that one, as it were, has co-ordinated those two opinions by saying that you would continue the present system, but introduce a central bank to manage the present system in place of the Government of India?—Of course, since I wrote that memorandum a great deal has been done in that direction. India has not gone the whole way; she has embarked on a path that is rapidly leading the whole way; but I imagine that the biggest thing not done is the handing over of the paper currency reserve to the bank.

12,990. Such a measure as handing over the paper currency reserve to the bank would, I imagine, be quite consistent with the general views you have expressed as to the continuation of the present position as regards control of Indian currency?—Yes. When I said that I wanted the present state of affairs to continue, I was not meaning in all these details of internal organisation.

12,991. Now as to the gold standard reserve, would the unification of the gold standard reserve and the paper currency reserve under the control of a central bank be consistent with your general opinion?—If you have a coin of any sort circulating in the country, you have to maintain a reserve for meeting expansions in the demand for the currency inside the country itself. The rupee portions of the paper currency reserve is at present held for that purpose. If gold were to circulate in India, you would have to hold a gold reserve also with that object in view. If, however, your actual circulation is composed of notes or tokens, you need your reserves entirely for external purposes, for meeting the fluctuations in your balance of trade which could not be redressed otherwise except by rather drastic measures. The policy governing your reserve ought to be different according as you are holding your reserve to meet the internal drain or the external drain. In my opinion the virtue of the Indian system as it was developed by Sir Lionel Abrahams was that those two purposes were kept more distinct than in any other country. They were not kept entirely distinct, because the sterling resources in the paper currency reserve were also part of India's precaution against an external drain. I think that more recently the distinction between the purposes of the two reserves has been further blurred; and if everyone's mind was perfectly clear there might bo advantages in consolidating the two reserves into one. But so long as people are inclined to confuse the reserve which you keep for the internal with that which you keep for the external drain, I think there are advantages in the Indian system of having different names for the two; or, at any rate, for parts of the two. A great deal of rubbish is talked about reserves in England, because historically our reserve was held to an important extent for the internal drain, whereas now it is kept almost entirely for the external drain. We have not, as India has, different names for the two. The result is that a great deal of argument which would be quite sound if we were holding the reserve for the internal drain is still alleged as sound when we no longer keep our reserve for that purpose. In England we suffer because historically our reserve has been held to an important extent as a precaution against internal drain. India's double reserve helps her in that way.

12,992. If the maintenance of a double reserve has these consequences, that it makes either or both less efficient for fulfilling the purposes for which it is intended, then I suppose it would be rather a heavy sacrifice to clarity of ideas to maintain the separation?—Yes; if that was so.

12,993. In your opinion might that be so or not?—I do not think it has been so.

12,994. The organising of the reserve in a single or a double form?—I do not think it has had any bad consequences so far.

12,995. Does not it necessitate keeping a larger reserve in both, for instance?—I do not see why it should.

12,996. Anyhow, the minimum which is necessary?—I have the impression, as I have said, that the management of these two reserves has been more blurred in post-war days than it was in the pre-war days. At the date when I was more closely connected with Indian currency affairs than I am now I think the distinctive purposes of the reserves were quite clearly kept in mind, and the reserves were held at appropriate figures having regard to those considerations.

12,997. You see no objection to the unification as long as the currency authority is sufficiently instructed, as it were, in the elements of the science which he has to work as to realise the purposes that this reserve is to serve?—Granted that assumption, I see no great disadvantage; but on the other hand, I do not see any very great advantage. There is a very strong tradition for allowing a freer hand for that part of your reserve which is not called the currency reserve. The essence of all reserves is that you should have a free hand with them. I fear that if you were to transfer the resources of the gold standard reserve into the paper currency reserve you probably would not have such a free hand to use them in an emergency as you have now. The gold standard reserve is absolutely free. If you put it into the paper currency reserve you quite likely tie it up in the same way as the latter.

12,998. That would rather depend, would not it, upon the legal formula as regards the relation between reserve and circulation? The disadvantage would be that you had not machinery of sufficient elasticity to permit you to use the reserve?—But I am afraid no one but myself has ever proposed

a formula which would be sufficiently elastic. In my opinion, there should be no legal proportion whatever, so that the whole of the currency in your reserves may be available. You can get rid of the legal proportion as soon as the internal drain is not a danger; for the only remaining purpose of the legal proportion is to render some part of your reserve useless.

12,999. What is your opinion in this connection of the method, which is typically that of the Reichsbank, I think, of permitting reduction of reserves subject to tax?—I think it is better than nothing, but I always regard that as a rather humbugging contrivance, because the surplus profits of State banks nearly always go to the Government, and it does not matter two straws to the authorities of the Reichsbank whether they do pay this fine or not. It generally comes out of the Government, which is entitled to a share of the surplus profits. It is a contrivance for moving a little in my direction while keeping up the appearance of the old formulæ. The proportionate reserve, or fiduciary reserve, and all these devices were invented when you were keeping your reserve to an important extent against the internal drain; so that when your gold was moving out your need for currency in other forms would be automatically contracted to a certain extent, and the legal proportion enabled to prevent the bank from counteracting that by re-issue. When you are not holding your reserve for the internal drain but for the external drain, the situation is entirely different, and this new situation has not been very profoundly examined from that point of view. I fear, therefore, in the present state of opinion that if you imprison in the paper currency reserve the resources that India is holding for external purposes they will be likely to come up against some of these rubrics.

13,000. Is not that difficulty adequately, if not somewhat cumbrously, met by provisions for suspending the legal basis of the reserve in times of special emergency?—Provided it is understood that you always break your rules whenever you want to, I agree that there is less objection to them.

13,001. That is the substance of the matter?—On the other hand, there is no great advantage.

13,002. (*Sir Purshotamdas Thakurdas.*) Can you tell me what you think is the ideal system of currency for India in the circumstances in which you know India is at present?—I think a system like the present in which stability of the exchange is aimed at in normal circumstances, but in which India is free to depart from the present level of exchange if it is in the interests of the internal stability of price for her to do so. I would not have her allow the question of the rate of exchange to overbear every other object, but I think it is important that she should maintain the liberty to have a different exchange from the present one if the maintenance of the present exchange would cause internal prices either to rise or fall to a marked extent.

13,003. Then I understand that with regard to the return that the cultivator should get for his crop in rupees which you would insure for a period of years—say five years—you would regulate sterling exchange in such a manner that the cultivator would continue to get the same return in rupees and nothing substantially more nor less?—Yes; I should do that, except that I should take the standard value of money on a rather broader basis than crops. Crops would be a great part, but I would have it rather broader. Also I would not do anything to counteract minor changes, and it would be impossible for me to do anything to counteract the changes due to the harvest. That you have implied in suggesting a five years' period.

13,004. I put a five years' period because you named a five years' period before the Babington-Smith Committee. That is why I named it?—I had forgotten I had named that period.

13,005. For that purpose, in order to think it out and to avoid any injustice to any of the major interests concerned, it would be necessary to have a complete set of figures representing the minimum cost of living, and the economic cost of growing certain major crops which would leave a fair margin to the cultivator—would not it be necessary to do that?—If it was to be done in a very precise way, such as has been proposed for certain other countries, I agree you would have to have a broader basis of statistics; but there are all kinds of degrees possible in this. I think India is extremely well placed and better placed than any other country for aiming at the same sort of objects in a much less precise way, and with a much broader brush; that is to say, not aiming at counteracting small movements or following small movements at all. To keep the stability of the exchange as a normal objective, India is able to do without any disturbance of her existing situation, whilst permitting a fluctuation of the exchange in the event of the value of gold suffering a major change.

13,006. You would have to reckon with fluctuations in world prices which would be of course outside the control of the Indian currency system. Take only one article in which India is substantially interested, namely, cotton. Cotton has this year gone down in America. I understand (you may take it from me) that cotton has dropped in India to the extent of 50 rupees a bale?—Yes.

13,007. Would it not be necessary to ascertain what should be the minimum price to be paid to the cultivator in order that you may not injure his legitimate interests in a substantial manner?—I should not be influenced by the prices of one crop, even if it was as important as cotton. If the same thing was happening all round, then I should be prepared to take action; but I think it is very important that you should not take action in the interests of a particular group of cultivators.

13,008. Take cotton, or jute, or seeds, or rice. Those are four of the important crops. Take any one of them or altogether. In order that the growers of these should not suffer, and they form the major part of those concerned whose interests should be watched, do not you think that we ought to have some basis before we try to regulate exchange by internal price levels?—I think if that policy were to be adopted it would want going into in a good deal of detail. I quite agree to that. You would have to think out quite clearly what were the main indicators of price fluctuation which for India were important. I was only meaning to say at this stage that I do not think that by the adoption of this policy you need settle anything very precisely. I should not in the case of India at the present stage of things, aim at avoiding anything except major price changes which were quite obvious to everybody —there would be no doubt that the value of money had gone up or down, as the case might be.

13,009. What was in your mind when you said "major price changes" which would be obvious to everybody?—I think if the index prices that are now compiled—no doubt they are rather rough index prices—had moved 10 per cent., the Government of India ought to consider whether the exchange might not be allowed to fluctuate a halfpenny or a penny; but, even so, I would do it gradually.

13,010. Would you take the present index number as a fair basis?—No; if I was doing anything precise I would modify my index number, but I think that the latest Indian index numbers are not bad.

13,011. You would be prepared to recommend that they should be relied upon for a start. Is that what I understand?—I think they are a fairly satisfactory guide to major movements.

13,012. In America have they got separate index numbers for major crops which are exported?—Yes; in America they have index numbers which are very much more elaborate than in any other country, and which I think are much superior. There are

two reasons for that. In the first place, the Bureau of Labour index number is elaborately weighted according to the importance of the different articles. America has a census of production and consumption which is sufficiently precise to enable pretty accurate weights to be given. In most countries it is difficult to give accurate weights because one does not know enough. The second reason is that the manufacturers in America are much more willing to make returns to the Government, so that America has pretty satisfactory numbers for certain manufactured and semi-manufactured goods; whereas, in most countries the index numbers are faulty because it is practically impossible to take enough account of the prices of manufactured and semi-manufactured goods.

13013. Would you agree that India is far, far behind America in this matter? Index numbers in India compared to those of the nature which you have just mentioned as existing in America, are of a comparatively crude nature?—Yes; but on the other hand, India being a simpler country in its organisation you can go much further, whilst having nothing but the prices of the main commodities, than you can in America.

13,014. Did I understand you to say India being a simpler country in its organisation?—Yes; the number of articles which really matter are much fewer in number.

13,015. The major crops being fewer is what you have in mind?—The consumption of manufactured articles in great variety of shapes and forms being a less important part of the consumption. A mere food index in India would go a long way, whereas a mere food index in the United States is very inadequate. I am simply illustrating what I am saying, that you do not need such complication as they need.

13,016. You really think, therefore, that the present index numbers and other figures available in India are fair guides and you would utilise them for the purpose of the ideal that you have named?—I think they can, and ought to be, improved; but I am prepared to trust them in a general way as indicators of major movements.

13,017. Would you take the present basis as being a basis showing a fair return to everybody concerned, either in agriculture or in manufacture? Would you take the present basis of index numbers as the basis which should be maintained, or would you put it up or lower it?—If one is going into it in as much detail as that, I ought to have specified to me which index number you are referring to.

13,018. Take the index number of cereals, which is round about 130 as compared with 100 pre-war? —I would not take the index number which was only an index number of cereals.

13,019. What would you take as the basis?—I would take broader index numbers which are compiled. My chief practical difficulty would be, I think, in knowing what to do when the index numbers for different parts of India moved differently. My information is—I do not know that I can substantiate it to-day—that whilst for any precise scientific regulation where movements of a small number of per cent. mattered, the Indian statistics are inadequate; yet if you merely need a general indication to the authorities as to whether prices on the whole are moving seriously up or seriously down, for such purposes they are adequate.

13,020. Up to what point would you allow fluctuations before Government interfere by regulation of exchange to control further fluctuations?—My difficulty in answering that question is this. I am not quite sure whether I am being examined, so to speak, on a scientific regulated currency for India, or whether I am being examined on what I proposed in my evidence in chief, namely, an intermediate system for India in which this sort of general aim was blended with some of the general aims which have prevailed in the past.

13,021. You yourself said a scientific system for India is neither feasible, nor is the material for it available. Therefore I should have thought that we were discussing the other one which you thought was both feasible and immediately available to put in practice?—If that is clear, then I can answer.

13,022. I took it from your earlier answer that you strike out the scientific basis as not being feasible; but there is a rough and ready one which you think is good enough to allow the Government to go ahead on?—Yes. I was not suggesting in my evidence in chief that you should have what sometimes has been called the tabular system for India—that is to say, in which it should be the duty of the Government to keep a composite index number within a certain range of fluctuation. I was not suggesting that. I was suggesting something much more like what it seems to me has happened in recent years; that is to say, so long as there are no important movements in the outside world, exchange stability is regarded; but when there is an important movement in the outside world, the stability of internal prices is allowed to have some influence. For that purpose I think the Indian indox numbers as currently compiled are an adequate guide.

13,023. I also asked if you would tell me at what point Government should adjust the exchange?—Well, I hesitated in answering that, first, because I wanted to be clear on this point. I have a further ground for hesitation, that if you are dealing with a system where the Government is not bound legislatively to keep to a certain figure, I think it would depend very much upon the causes of the fluctuations—the general circumstances; and in particular, whether the change was one which had originated in India, or whether it was one which had originated outside India. If it was one which had originated in India I should he more chary in interfering with it. I should think it more likely that it had sound foundations. But if it was a change which had originated in the outside world, if something that had happened in New York and London was reacting on Indian prices in a way which was quite unnecessary from the internal Indian point of view, then I should be much more ready to meet that by allowing the exchange to fluctuate a penny or so than if it was a case arising in the first set of circumstances. I would not like to say 5 per cent. or 10 per cent., because I think that the controlling authority should have regard to the attendant circumstances.

13,024. It may lead to this, may it not? Supposing there was a shortage of wheat in the world, and you found that the prices of wheat in the world market were soaring, the Government of India would regulate wheat prices locally by manipulating the exchange?—I should be against that.

13,025. You would be against that?—Yes.

13,026. You would allow the wheat crop in India to share the boom prices in the world market?—If I thought it more desirable that it should not I should deal with an individual thing like that by an export duty.

13,027. You would put on an export duty so that local prices should be regulated by that?—If the movement was of such magnitude that I thought it would be disastrous for certain districts of India, I would put on an export duty such as many countries have done. I would not introduce currency regulation for this purpose. What I should introduce currency regulation for would be something of a general kind in the outside world not due to a particular harvest of a particular crop, but due to a general tendency of prices to go up or down to an important extent. For example, 1920 is a typical sort of case. If prices in the outside world were booming, as they were in 1919 and 1920, or slumping as they were in 1921 and 1922, I should have thought that an indication that the Indian exchange ought not to be kept steady. If, in such circumstances of the outside world, the stability of exchange

was to be put first, that would bring about fluctuations of internal prices which would be contrary to Indian interests.

13,028. Any such regulation would necessitate expert knowledge about various world crops and world markets? It could not be done by the officials that you referred to in your memorandum regarding the State Bank before the Chamberlain Commission?—I think the kind of thing that I am contemplating would not require more knowledge than you would expect them to have. One has to remember that all this sort of matter is much more discussed and written about than it used to be. In fact, the danger will be that the officials of the State Bank will spend too much time reading the enormous mass of weekly and monthly literature on these matters than that they will read too little.

13,029. Whom would you entrust with this work of watching and regulating, so as to know when to act?—Well, I think that the ideal arrangement is a Central Bank, which is in close touch with the Finance Department of the Government.

13,030. You think the commercial community would be able to anticipate the regulation with intelligence, or would it come as a surprise to them?—You can answer that question better than I can.

13,031. How do you mean?—I think you have more experience of the people in question.

13,032. Would that be a system capable of being followed by the ordinary public, or would it not be known to them only when notified publicly as the decisions of persons in charge?—I think it would appear in this sort of way—that there was a severe boom or slump in the outside world, and that as a consequence of this the authorities in charge of the exchange were allowing the level of the rupee to act as a brake against the reaction of those outside forces on India. I think that those major movements such as I am now considering are things which are extremely well appreciated by a wide opinion nowadays. I think the situation is different from what it would have been even ten years ago.

13,033. So far as the currency in India is concerned, you recommend no changes; you would keep on silver rupees and paper currency notes as at present?—Yes.

13,034. You think that would be the ideal system for India, or would you recommend any change; are you aiming at any other ideal?—No; I do not think so. I think that the further popularisation of the note is desirable, but that seems to be going on very well. I should have nothing in particular to suggest about that. The progress since the days when we first used to study these matters has been almost beyond knowledge.

13,035. The progress seems to be satisfactory as far as it goes?—Yes.

13,036. You said you did not believe that gold currency would lead to a greater popularity of paper currency?—I said I did not see why it should.

13,037. That would perhaps depend upon the psychology of the people?—Yes.

13,038. And also, to a certain extent, upon how the people would take to notes after gold currency is available as far as inspiring greater confidence is concerned, would not it?—You are suggesting that if the note was convertible in terms of gold that would increase confidence in the note?

13,039. That is it. If people feel that they have only to go round to the Treasury or bank whenever they want any gold coin it has been repeatedly said to us that it would considerably increase the confidence of the people in the paper currency?—That is conceivable. I am not as much-up-to-date in these matters as I used to be. In former times when circles existed it used to be held that doubt about the convertibility of the note into rupees, as it was then, did stand in the way of its popularity. My impression was that by now any doubts about convertibility had really been dissipated, and that was no longer a matter greatly affecting the circulation of the notes in India; but it is not a matter on which I can speak with any authority.

13,040. Would you be disposed to challenge Indian opinion if it was fairly unanimous on this point?—I should, on the ground that I know they are in favour of the change for other reasons. I should therefore consider them biased on the matter.

13,041. Will you tell me what those other reasons are which you have in your mind?—I should like to try to elucidate them, but it is difficult. I think Indian opinion has a feeling that a gold currency is, so to speak, the smartest sort of currency; it is the most *chic* thing, and that India is, by some malicious contrivance, being deprived of this outfit.

13,042. I wonder if you have seen that eminating anywhere from responsible quarters in India, or is it your impression from a general reading of the newspapers?—I have read a great many pamphlets and memoranda and books on this matter, and that is the impression which that reading makes on me.

13,043. With reference to silver, India will not need for some years to come silver for the coinage of rupees, and that would have a depressing effect on the silver markets of the world. Is not that so?—Yes.

13,044. I do not suppose that anybody will contend that India should continue to buy silver in order to help the American market?—I do not contend that.

13,045. Suppose the people in India continue to take paper currency freely within the next five or seven years. The Government at present have a large number of rupees in the Treasury. There are 90 crores there. Supposing another 60 crores come in during the next five years. What would you recommend Government to do? Would it be necessary for them to part with some of this silver which would be lying idle in the Treasury?—Yes. I quite agree with the suggestion contained in the question. I think, quite apart from any proposals which this Commission may make, the position of silver is precarious. Any important change of habit on the part of India would upset silver. It is just because it has so few natural supports at the moment, that I gave the evidence I did earlier this morning.

13,046. I only wanted to ask you what you would then recommend the Government of India to do? Would you then say that they must keep the silver and not dispose of it, as perhaps they would do in the ordinary course when they were convinced that so much silver was not necessary?—It is difficult to express a definite opinion on these hypothetical circumstances. I have expressed the opinion that India has a great interest in the stability of silver. I adhere to that, but I can quite conceive circumstances arising in which silver would really be past saving, and if that were so I should deprecate the Government of India wasting resources in trying to achieve a probably unattainable stability for the metal—silver.

13,047. What would happen at that time to the silver that they had? Would not they have to sell it?—I should have thought that it is not likely there would be any great occasion for selling silver unless there was a change of habit as regards the hoarding of it in India. Leaving that out of account, I do not see why anything should happen which should cause the Government of India to melt a great deal. You are suggesting that the progress of the use of Notes might be so great that less rupees would be required in circulation. Unless that happened very rapidly, the natural increase and the natural wastage and so forth would, I should have thought, absorb the rupees that were being released by the increased use of Notes. What you are suggesting is that conceivably, but not probably, the Government of India would be in the position of wanting to sell silver on an important scale.

13,048. You say it is conceivable. Supposing it did, in fact, happen within the next seven years.

Do not you think the Government would be quite justified in selling silver then?—Certainly.

13,049. Would you, then, give any weight to the interests of America or of any other country?—I should give no weight to the interests of America in such circumstances—not the slightest; but I should still think, if I had any influence with the Government of India, that they ought to pay some regard to the stability of the metal from their own point of view. I do not suggest that, in any circumstances, India should pay the slightest attention to American opinion, unless they are wanting to borrow in America. There is no other reason.

13,050. There has been a suggestion made before this Commission that the question of transferring the Note issue to tho Imperial Bank or to a Central Bank should be considered. Do you still hold the views which you put forward before the Chamberlain Commission regarding the formation of a State Bank?—Yes, I still hold those views.

13,051. I see you said there, on page 60 of the Report of the Chamberlain Commission: "First, as regards the relation of the Bank to the Government. The creation of such a Bank as is here proposed certainly increases in a sense the responsibilities of Government." Do you think such a Central Bank would also increase the responsibilities of Government?—In this passage here I am distingushing between two senses of responsibility, and I am saying that in a sense it increases the responsibility of Government, but that in another sense it does not. I think I still agree with it so far as I still remember what is here.

13,052. That is brought out further on page 61, where, in the last paragraph but one you say: "The choice lies between a good deal of responsibility *without* thoroughly satisfactory machinery for the discharge of it; and a little more responsibility *with* such a machinery"?—I think that fairly represents my view.

13,053. And you confirm that to-day?—Yes.

13,054. You would be opposed then, to any suggestion that the Central Bank should work absolutely without any sort of direction from the Finance Department?—I think it is very difficult. It is not desirable. The Indian Finance Department is such a very big factor in the situation in their operations that it would be an inefficient way of conducting the Bank not to be in very close touch with them, and if you are in very close touch with them it is impossible that they should not be taking a certain responsibility. That had better be faced at the outset.

13,055. It has been pointed out that Central Bank in important European countries have very little, if any, Government control. Do you think there are sound reasons for having a different system in India?—To which of the countries are you referring?

13,056. In many important countries, we were told, the Central Bank is more or less independent of the Government?—It all depends whether you mean formally or informally.

13,057. Formally?—You could not have a more extreme case than the Bank of England, which formally is a private company, but that does not in any way represent the facts.

13,058. And there is a sort of persuasion, and perhaps a spirit of trying to see each other's point of view. The Bank of England, at a certain juncture during the war, did absolutely refuse to issue paper without gold backing, and the Government had to issue their own paper—the Bradbury Note?—I do not think that is quite a full history of the matter. I should have said, if we are to take the war period as bearing on it, that it is the Chancellor of the Exchequer who has the last word in the end.

13,059. The Government may have the last word by issuing their own paper?—Within very wide regions the Government of the day has the last word in the end.

13,060. What happens if the Bank directors are opposed to doing it?—The Bank directors have the power of resigning and making a great public scandal about it in the last resort, but in practice, short of a great public scandal, I should say that it is the Government of the day which has the last word.

13,061. Do you suggest that what you recommend for an Indian Central Bank has its counterpart in any country in Europe?—I think we are in a very transitional state in England in which the formal situation is more remote than it used to be from the actual situation. That is also the case in several other countries. There is a struggle going on as to where the equilibrium of power should lie. In the United States the precise relation of the Federal Reserve Board to the United States Treasury is in process of evolution. It is impossible to make an up-to-date exact statement of what it is at any moment.

13,062. You suggest a Board of three—the Governor, the Deputy-Governor, and a representative of the Government, and then you recommend three assessors as representing the Presidency Banks, as they were then?—That is all out of date now.

13,063. Would you make the Imperial Bank, as it is constituted at present, the Central Bank, or would you start another Bank as the State Bank?—I have not clearly before my mind the exact Charter of the Imperial Bank, so that I cannot answer that question now. I should require to prepare myself on the point.

13,064. I only wondered whether you would convert a Bank, which is admitted to be a commercial Bank, into a Central Bank? Would you entrust a Bank which borrows money, and lends money, and opens branches all over the country, and in fact which has the largest number of branches in the whole of India, with the power of Note issue?—I think I should be unwise to answer, without preparing myself, questions as to the way in which the Imperial Bank could be developed.

13,065. Regarding the ratio to be fixed, I think you say in paragraph 9 of your memorandum that you "attach very little importance to a legislative enactment fixing the rupee at 1s. 6d." I daresay you may be aware that at the moment the ratio in the Indian Statute is 2s.?—Yes, I am aware of that.

13,066. Which is absolutely inoperative, and prevents gold from being tendered to the Government?—Yes. I think that inoperative provision ought to be removed.

13,067. To that extent, at least it is necessary for the Government to make a change, even though your recommendation of doing nothing may be fully complied with?—Yes, I agree.

13,068. What is the ratio you would have substituted?—I should substitute no ratio.

13,069. No ratio at all?—No.

13,070. At what rate would gold be tendered to Government?—It would be possible for the Government to fix, as I think it used to at one time, a buying rate from time to time, which would be in suitable accordance with the actual exchange of the moment. I would leave the Government to fix its buying price by enactment and not have it tied to a price.

13,071. By enactment?—By executive order, I mean.

13,072. The basis for the action to be the regulation of internal prices?—The question of the prices at which they buy and sell gold is exactly the same as the question of the prices at which they fix the exchange. Therefore, if I am in favour of a certain latitude as to the rate of exchange, I am clearly in favour of the same latitude as regards the price of gold.

13,073. (*Sir Reginald Mant.*) You said in reply to the Chairman that you thought that in future the demand for gold for monetary purposes would practically be regulated by the supply?—Yes.

13,074. Do you share the view that in the past prices have been regulated, broadly, by the supply of gold available?—In pre-war days, yes, but with modifications. I think the gold reserves in 1914 would have been much less in relation to prices if the South African gold had not been pouring out since 1900. I think the South African gold did not produce its proportional effect on prices, because the Central Bank took advantage of the greater ease with which they could get gold to increase their reserves more in proportion than they would have done if it had been more difficult to do so. But I agree that before the war the supply of gold did exercise a dominating influence on the price level. Before the war, however, gold was in circulation in many countries, so that the requirements of gold in circulation had a strong casual nexus with the level of prices. Now that is no longer so.

13,075. You do not anticipate any large return of gold to circulation?—No, I do not. The one country which is in a position to put gold into circulation without any cost, namely, the United States, does not in practice find that gold is used except in quite limited parts of the country. The greater part of the United States, which is quite free to use gold if they want to do so, do not.

13,076. If prices can be kept steady by the control of Central Banks irrespective of the supply of gold, it is equally open to them to raise or lower prices if the supply of gold remains steady?—Within limits. I should not have given the same answer if the amount of gold in question had been ten times as great. All these things are within limits, but those limits are sufficiently wide to allow of the absorption of less of 100 millions of gold. If you are dealing with much larger sums, it is another question.

13,077. What I am considering is the prospect of the world's prices being practically in the hands of the banks or other authorities which control the volume of currency. According to your view, in the future world prices will practically be managed prices?—I think so.

13,078. You think they would be managed by some sort of international agreement or international Committee?—I should hope so, but I think we are a very long way off that. You can have a state of affairs where the level of prices is dependent upon the action of banks, even although the action of banks is not taken advisedly or in collaboration. I think the dominating influence at present is the Federal Reserve Board in the United States, and the great difficulty in the way of an extension of international co-operation is that it must mean the Federal Reserve Board voluntarily resigning some portion of its present power. The present political conditions in America are such that it would be difficult for it to do that. It is already open to the charge of acting contrary to American interests under international influences. Although I think that charge is completely unfounded, it is the sort of thing to which you have to pay some attention. I believe we could have a great measure of control by an international body of banks at this moment if the Federal Reserve Board was prepared to surrender some part of its present power. I do not see it doing that easily.

13,079. But looking forward, as other nations come back to a gold standard, presumably the world's reserves of gold will be distributed more widely than they are at present?—I do not know that they need be.

13,080. You do not think they will be?—Not necessarily. If you had a perfect gold standard you would not need any gold at all. If you had perfect international co-operation it would be unnecessary for anyone to have any gold reserves, and as you tend further and further in that direction the smaller is the part which gold reserves play in the matter. I think it is possible that we shall eventually move to something which we call a gold standard, in which actual gold plays scarcely any part. I personally have been against that particular evolution because I think that the task of paying lip service to gold greatly aggravates the difficulty of the technical problem; but in so far as international co-operation is developed, the attention to gold will be more and more in the nature of lip service, and it will be more and more a matter of indifference as to what gold reserve any given country holds. I think there will be anxiety on the part of countries to save money and to have as little gold as possible rather tahn to have as much as possible.

13,081. The regulation of prices will be under some form of international control?—Yes, but I think it will probably be in rather a loose way, such as I have been suggesting in the case of India. Certainly it would be in that form first of all. The tabular standard would come later. In the first instance it would be a control which was aimed at avoiding major movements. It would not be tied to any prices formula.

13,082. That would be the international position. What I understand you to recommend for India is that she should stand outside it?—I think she should wait and see. None of these things which we have been discussing are really in sight at present. The actual future of the gold standard, I think, is quite uncertain at the moment. If I was in India I should wish to wait, being under no compulsion to make a change, until I saw what happened. We are in very early days at present. It is not a year since this country came on to a gold standard, and I think it is needlessly rash for a country which has its liberty to take a movement at all at this moment.

13,083. You do not want India to tie herself to world prices at present?—I do not see why she should, no.

13,084. Later on it would be open to her to come into the international pool, or not?—Yes, and if an international pool was under serious discussion I think India ought to be represented at the meetings and ought to be one of the parties to it, but I think she should go to that meeting with a free hand.

13,085. With regard to your recommendation that we should practically maintain past practice, I think you modified that to some extent in your reply to Sir Purshotamdas Thakurdas, when you said you would have no legal rate of exchange fixed by statute?—Yes. The old practice was to have a legal rate one way but not the other; that is to say, a legal rate at which gold was accepted, but at no legal rate at which is was paid out.

13,086. You would not recommend a legal rate both ways?—No. I should prefer to have liberty both ways.

13,087. Do you contemplate unlimited sales or receipts of gold or gold exchange under the system you recommend? I will just explain that in the past the amount of gold or foreign exchange to be sold in the shape of reverse councils was an arbitrary amount fixed by the Government. It has been suggested to us that in a new system unlimited amounts of foreign exchange should be provided?—I think that they should be provided at the rate that was fixed for the moment. Suppose that the rate was 1s. 6d.: I would supply exchange freely at the appropriate parity with that, but I would maintain the liberty to alter it. I think the system which prevailed after the war of rationing exchange was thoroughly vicious. I am an admirer of the Lionel Abrahams system of pre-war days, in which you tried to work out rather carefully what reserves you required in order to meet the maximum probable fluctuation of India's foreign trade position within a short period, and then used those reserves freely; but I should not make great sacrifices in order to preserve an exact parity of exchange if, for other reasons, I did not think it was worth while.

13,088. I understand you would have no limit in selling foreign exchange until it became a question of altering the rate?—Yes, and I should be strongly in favour of making any alteration, not catastrophically but by small degrees. If there were indications that there was going to be a severe drain, I should lower my exchange by ⅛d.

13,089. You would never inform the public how far you were going to alter it?—No, because I should not know myself. I agree that the objection to that is that you may have bear speculation arising, but I think you must have sufficiently large reserves to be able to look after that. That is so with any arrangement of this sort.

13,090. Would not it introduce an undesirable element of uncertainty in trade and commerce?—It is undesirable, but I think it is not so undesirable as the uncertainty of prices. I think it is an evil.

13,091. Dealing with the two reserves, the paper currency reserve and the gold standard reserve, you have said that the former is intended primarily for internal conversion and the other for external purposes?—I said the silver in the paper currency reserve was intended for internal purposes.

13,092. For internal purposes it is only the silver in the reserve that would be required?—In older days the amount of sterling securities in the paper currency reserve was very trifling. It is the increase in the sterling securities in the paper currency reserve which has slightly blurred the distinction which used to be clearer. Formerly the greater part of the sterling resources were in the gold standard reserve. There was some gold, it is true, in the paper currency reserve which you might hold as serving the other purpose, but the bulk of the paper currency reserve was rupees. Now there is a greater proportion of the paper currency reserves which it might be argued is held for external purposes, so the distinction is not so clear as it used to be.

13,093. Is it not a fact that the paper currency reserve serves a dual function, in holding silver resources for internal purposes and holding also a considerable amount of gold or sterling resources for external purposes?—Yes. I think now that is so—that part of the paper currency reserve must be reckoned as being a reserve against external drain.

13,094. The only distinction between the two reserves is that one is maintained for two purposes and the other is maintained for one purpose?—Except that you have this considerable sum of 40 millions sterling in the gold standard reserve which is freely available without any reaction upon anything, and which you can use untrammelled by ratios or rules of any sort. I think that is a great advantage. In the use of the second line of your reserve for external purposes, which is in the paper currency reserve, you are more hedged about. Moreover one would hope that it would only be in very exceptional circumstances that that second line would be in question.

13,095. Which are you calling the first line?—I am calling the gold standard the first line, but I may be talking old-fashioned language, because I have noticed a tendency to keep the amount of that absolutely fixed in recent times, and a greater willingness to fluctuate the sterling resources of the paper currency reserve. I think the old-fashioned method is better.

13,096. In practice the paper currency reserve is used as the first line, and the gold standard reserve is kept as an ultimate reserve?—That is so lately. But I doubt whether that would be done if it were a matter of an important movement.

13,097. You would rather see the gold standard reserve used as the first line?—Yes, and I think it would be used first if the large sums were involved over a short period. I do not think you can argue from recent custom what would happen in more severe circumstances.

13,098. In the memorandum which you wrote for the Chamberlain Commission you recommended that the paper currency reserve should be made over to a bank but that the gold standard reserve should be retained by Government?—Yes. I had forgotten that I recommended that. It depends upon the nature of the responsibility. I think in this Report I was contemplating that the Government would be under legal obligation to maintain exchange at a fixed figure, and I think I recommended this as a consequence of that.

13,099. It would not quite fit in with your theory that the gold standard reserve should be used as the first line of defence?—Yes, I am of opinion that it would, because I was contemplating in that Report that the legal liability in relation to the currency would remain with the Government.

13,100. The bank would be merely responsible for maintaining the internal convertibility of the Note?—No, I do not think that was my recommendation. I am sorry I have not read this through quite recently. If the Commission wish to know just how much I hold to this, I should have to read it through.

13,101. I merely wanted to know whether you still hold that, if a central bank were constituted and entrusted with the Note issue, the responsibility for maintaining exchange should remain with the Government and not be imposed on the bank?—There are two points I should like to make about that. When I was writing this I was contemplating that there would be a legal value of the rupee in terms of sterling, and that the responsibility would lie on the Government for preserving that. I was also making in a sense a compromise suggestion, because at that time India was much further from the central bank idea than she is now. There was the complication of the Presidency Banks and so forth. I was in a position of difficulty as to how far it was possible to recommend that the Government should hand over to a body which was still non-existent the responsibility for keeping the law, so to speak. Now there are two changes. I am not recommending that there should be the same legal liability to maintain an exact rate of exchange, and India has progressed much further in the central bank direction, so it is less experimental Therefore I answer this point with less confidence. What my final answer would be would depend upon the question just how much the Government was concerned in the bank. If an attempt was made to pretend that the central bank was something independent of the Government, I should still be nervous of giving them the whole of the final responsibility for the exchange, but if the central bank was, whilst administratively an independent entity, nevertheless in a sense a full organ of Government, then I should be inclined to centralise the whole thing and to put the whole matter in the hands of the bank. But I could not give a final confident answer unless I had before me the precise proposal as to the relations of the new bank with the Government.

13,102. If the bank were not entrusted with the responsibility for maintaining exchange there might be some conflict between their discount policy and the exchange policy of the Government, might there not?—I think it would be most important that they should be pursuing an agreed policy, wherever the final responsibility lay. It would be hopeless to have the bank responsible for the discount policy and pursuing a line which was not in accordance with the line of the Treasury in their responsibility for exchange. I agree with that completely.

13,103. Then there will have to be either complete responsibility or complete control? Either the bank must take over both, or the Government must control the discount policy of the bank?—I think in a sense that is true, but at any rate in English conditions, and I should have thought in Indian conditions, things are not quite so cut and dried in practice, and you can have two bodies which maintain

their respective spheres of responsibility and of power and yet necessarily always work together. It is the fundamental question of the relation between any central bank and any Treasury. In a sense in any country it is quite unworkable that the two should be in antagonism. Therefore you might say, as a logical consequence of that, that one must be in subordination to the other, but I hope that is not true in practice, but that you can have two bodies neither of which is subordinate to the other but which must always act in co-operation with one another. It is a dilemma which you get in other spheres of government. My view in this country of the future of regulation would be that the Treasury and the Bank of England would be neither subordinate to the other but would always be pursuing the same policy. That may sound impossible, but I do not think it is.

13,104. What I am trying to feel my way to is how your argument as to the varying rate of exchange would fit in with the proposals which have been put before us for making over the responsibility of maintaining exchange to a central bank. It would be simple enough to make over that responsibility if we had a legal rate of exchange which the bank would be bound to maintain, but I do not see quite how the future arrangement would work out if the rate of exchange was variable.—You may pretend it is the liability of the bank, but if there is any doubt as to the power of the bank to implement it the Government comes in at once. I think it was always contemplated under the pre-war arrangement that India might be subjected to such a severe strain that she would have to borrow. The moment there is a question of borrowing the credit of the Government comes in. I think the notion that the Government can get rid of responsibility on to the bank, and that that avoidance of responsibility can continue not only in good times but in difficult times, is a misapprehension. As soon as any real problem arose the Government would have to be in such relations to the bank again as to make itself responsible, because the bank has no ultimate authority of itself.

13,105. In any case I suppose Government would retain the responsibility for varying the rate of exchange under your scheme?—Yes. I conceive a central bank not as something which is independent of the Government in the sense in which a Bombay cotton mill is independent of the Government, but as an organ of the Government which has a certain independence of the executive; that is to say, that it is not a subordinate department of the Treasury, but is an organ of the Government on a level of authority with the Treasury. I think there is apt to be a confusion between the Government as a sovereign body getting rid of responsibility, and some particular department of Government like the Finance Department, which at present has responsibility, having less responsibility. I think the change would mean that the Department of Finance would have less responsibility than it has now, but the Government of India, in a broad sense, would have just the same amount of responsibility as it has now. It is impossible to conceive a sound system in which your central bank was really a private thing and was not subordinate to the sovereign instructions of the Government.

13,106. I just want to clear up that last point I put to you. In any case the responsibility for varying or altering the rate of exchange must rest with the Government?—It might rest to outward appearance with the bank as an organ of Government, but I should not be able to conceive a situation in which the bank could fluctuate the exchange contrary to the wishes of the supreme authority of the Government.

13,107. That is much the same thing. The Government must retain responsibility?—It seems to me unthinkable that it should not. I cannot imagine India having a central bank which could say that the exchange should move a penny, when the Viceroy in Council was of the opinion that it should not.

13,108. (*Sir Henry Strakosch.*) I would refer you to paragraph 4 of your memorandum where you say you do not lay great stress upon the withdrawal of 103 millions sterling from the currency reserves of the world. Would your opinion be unchanged if you also consider that there is needed, especially in more primitive countries, an addition to the currency annually? In that connection I may just say that before the war there was an annual addition to the currency in India of something in the neighbourhood of 20 to 25 crore?—If this figure of 103 millions is in fact too small a figure—if the actual figure is much larger—that would affect me; but I think it can be somewhat larger without affecting me. If you mean that this is a miscalculation, that what India would really require would be a very much larger amount, I would have to reconsider my opinion. I was taking this figure as a good estimate.

13,109. I do not suggest it is a miscalculation, but I suggest that in addition to the 103 million sterling which will be needed to stock India with a gold currency there will be needed annually an accretion to that currency?—Within the next 10 years?

13,110. In the past there has been an annual accretion to the currency of India of something in the neighbourhood of 20 crores?—I am not clear whether you are suggesting that India will need for currency purposes more than 103 millions in the first ten years.

13,111. That is so; I do suggest that.—If the figure is very much greater I should have to reconsider what I have been saying. I have been speaking on the basis of the 103 millions being roughly right.

13,112. If, as you suggest in a later part of your memorandum, owing to the severe fall in the price of silver a country like China might switch over to the gold standard, that would obviously require a further withdrawal from the gold currency reserves of the world. Would you in that case also be of the view that it would not affect the purchasing power of gold?—I agree that a point comes when you reach a figure so large that it would be difficult to supply it without a change of policy, but I think there is a fairly wide margin. I agree that if you were talking about 500 millions it would be another matter.

13,113. To go further, you said in your evidence that a withdrawal of that gold need not affect the supply of credit and gold prices. I suppose you would agree—in fact I think you said it—that the reserve needed to assure the external value of a currency is the amount of foreign payments which have to be made on balance at any given time?—After making some allowance for what one can borrow at short notice.

13,114. That is to say, the gold reserves in a gold standard country have to be big enough to enable a temporary adverse balance of trade to be righted before the orthodox means of contracting the currency have their play?—Except that I should expect countries to hold foreign balances as part of their reserve —at any rate a good many of them—as they do already. The measure of the gold reserve you must keep is what you require to meet short period fluctuations, after taking account of any foreign balances that you hold, and a conservative estimate of what you can borrow at short notice.

13,115. You would also agree that the greater the volume of trade of a country the greater the possible temporary adverse balance of payment?—Except there are many other factors. The variability of Indian exports as compared with British exports is greater then in proportion to their absolute amount.

13,116. What would be the psychological effect of reducing the gold balances held? If the view is held that the gold reserve should be big enough to right a temporary adverse balance of payments, then it would be an easy matter to induce the currency authorities in the gold standard countries to reduce their gold security reserves as you suggest?—I think that the danger of the central banks pursuing what I should

regard as a misguided policy, and thereby allowing a withdrawal of gold for India to have more effect than it need, is a very real one.

13,117. But human nature being what it is, would they not feel extremely uneasy if they saw their reserves dwindle to a point where they felt that their adverse balance of payment could not be met? Is not that a factor which would have to be taken into account?—I confess that the personalities of the central banks of the world do alarm me.

13,118. It is not only the central banks but the general public. Have not the general public a great deal to do with it? If the general public became alarmed when they saw that the gold reserves were dwindling would they not immediately react to that position?—I feel that unless there is some change of opinion in these matters we are done anyhow. This does not seem to me a larger amount, spread over the period that it is, than amounts which will often be coming along. Something that one cannot predict will constantly put a strain comparable to this on the gold standard, and if the Governors of the Central Banks are so fixed in their minds as to what proportions they want, and are so unwilling to use their gold reserves that they cannot accommodate themselves to a demand of this magnitude, I do not see much future for the gold standard.

13,119. I think you have said that if ideal conditions in international trade were to obtain then you could afford to reduce your gold reserves?—Yes. I am assuming that in that case the practice of holding foreign balances would be increased.

13,120. I take it that would mean a long process of education?—Yes, I think it would, and if you concentrate those balances too much in one place it adds to your dangers in a sense, because they may be withdrawn from that place; and as regards the place—for example, London—where foreign balances are held on a large scale, the requirements of that place for gold would be greater, I agree.

13,121. You would not think it unreasonable if people did attach importance to the holding, in these circumstances, of substantial gold balances to secure the external value of their money?—I should think it foolish if they held these with the idea of never using them.

13,122. Then, in the next paragraph, you draw a picture of a banker having to pay out balances due to his customers. If I may, I should like to complete the picture. If you had a big creditor of a Bank withdrawing his balance for the purpose of buying, let us say, a collection of old masters, and if the bank for that reason had to curtail credit to its ether customers upon whom the trade of the big depositor depends, would not that hit the big depositor?—I think the big customer might be well advised not to do it, but I think there are limits to the extent to which his banker can press that point on him. I think he would be entitled to resent it if his banker pressed the point.

13,123. That is to say, greatness, even in the matter of Bank balances, imposes responsibilities?—I have expressed the opinion already that India would be ill-advised to press for this. I think it would be wrong of them to do it, but it seems to me to strike at the root of international banking if we make any difficulties.

13,124. Now to turn to another point. Supposing India was content to link her price level to gold? What would be the criterion, in your view, when you come to consider at what point you are to stabilise permanently your exchange?—I should take something as near as possible to the existing situation.

13,125. That is to say, you would examine whether internal prices had sufficiently adjusted themselves to the external value of the money?—Yes.

13,126. Do you see anything in the point which has been put to us by a number of witnesses, that to fix the external value of the rupee at 1s. 6d. would damage certain interests, especially those of the cultivator and exporter?—As compared with?

13,127. With a lower ratio?—I think whenever you arbitrarily alter the exchange you benefit some interests and injure others.

13,128. But at this stage?—I have not examined the level of prices in India in detail recently, but so far as my knowledge goes I see no injustice in taking about 1s. 6d.

13,129. You are aware that the exchange has ruled at 1s. 6d. gold ever since this country went back to the gold standard?—I am not aware of the exact period.

13,130. But can one not suppose that, during that period, internal prices would have adjusted themselves to the 1s. 6d.?—I think it is reasonable to expect that adjustment to this figure is fairly complete.

13,131. What would be the effect if one were to fix the external value at 1s. 4d. having regard to these circumstances?—If it is true that things are adjusted to 1s. 6d., one would be introducing an arbitrary disturbance which I should very much deprecate.

13,132. There is the question of the hoarding of money in India. I take it you will agree that the hoarding of money is detrimental to India's interests from every point of view?—Yes.

13,133. Both from the point of view of managing the currency and also economically?—Yes.

13,134. Could you suggest a way of educating the people of India to hoard in things other than precious metals?—That is a very old problem. It is evident that India is absorbing a very much greater volume of securities than used to be thought possible. Everything that can be done to encourage that ought to be done. It looks as though in recent years great progress has been made. I have not the Indian experience that would enable me to make suggestions.

13,135. You would say that to offer India a gold currency would not have any effect in that direction?—I cannot see how it could. I should have thought it would tend the other way, if anything.

13,136. You would say, I suppose, that to give them a gold currency in India would not teach them anything?—I think it is a retrograde measure.

13,137. (*Sir Rajendranath Mookerjee.*) I understand that your chief objections to a gold currency scheme are, firstly the disastrous effect on its value, and secondly the opposition of silver interests?—No. My two chief objections are the effect on the silver market, and the cost to India.

13,138. Did you not also lay stress on the interests of other countries being affected in anyway?—I lay very little stress on that. The two points I lay stress on are C. and D. in my memorandum.

13,139. The hoards of silver in India are principally composed of coin, are they not?—I do not know. I always understood that there was a bigger store of silver not in the shape of coin. I am not aware of the relative magnitudes.

13,140. Anyhow, we have been told by the Government that in addition to 90 crores of silver in their reserve there may be estimated a maximum of Rs. 100 crores with the public?—Yes, but I am not aware of what the estimate is of the amount of silver hoarded not in the form of coin.

13,141. The proposal in the Memoranda of the Finance Department is, that even with the introduction of gold coin and a gold standard, the silver rupee would remain legal tender?—Yes.

13,142. The silver coin and silver rupees are generally in the hands of the cultivators, who number 224 millions out of the total population of India of 320 millions. These cultivators, as you know, will not be able to exchange their silver for gold coins for two reasons. First of all, dividing up the total silver coinage between these 224 millions of cultivators we find that each man's share comes to about 5 rupees. Taking an average of four persons to a family, a sum of 20 rupees is not big enough for them to wish to go and change it into gold. Also it is not convenient for them to do so as they want to use their silver hoards in times of necessity. They

can take out one or two or three silver pieces when they want to buy food. If they possessed just one gold coin it would be very difficult for them to get it changed in smaller coins in a remote village 40 or 50 miles from a city. Therefore, they would rather keep the silver in their store than change it into gold, besides a rupee will remain a rupee and buy a rupee's worth as it does now?—You are arguing that there is no real demand for gold coin in India, and that it is not suitable for India. I think that is quite possible.

13,143. Therefore the contention that this silver would come out for conversion into gold, and thus accumulate into the Treasury, is not quite correct? —I agree that if there is no real demand in India for a gold coin, and if the scheme is a fiasco, it will not have very serious consequences.

13,144. Therefore there will not be any such disastrous effect on the silver market as you apprehend?—I am assuming that if it is successful it will be disastrous, but if it is unsuccessful it will be less disastrous.

13,145. But it cannot have a disastrous effect on the silver market if silver is not changed into gold? —If most people in India do not want gold coins, and will not have anything to do with them, then I agree that the offer to them of gold coins will not have very serious consequences. On the other hand, the risk would have been run for no very useful purposes.

13,146. As regards the second point, the opposition of silver interests, do you remember that, with the formation of the Latin Union in 1865 and the adoption of the gold standard by Germany in 1871, silver prices fell from 65d. per ounce in 1869 to about 31d. in 1893? Did the members of the Latin Union and Germany give any thought to what effect their policy of the demonetisation of silver would have on India's stores of silver?—As you are probably aware, it was a very great controversy at the time, and there was tremendous opposition in all countries to a step which would depreciate silver, but I agree with your main suggestion that the prospective depreciation of silver did not carry decisive weight—at least not with France and Germany. It was a very great historical controversy, and the views of India were freely expressed and weight was given to them; but I agree with your suggestion that the final course adopted by the Continental countries was not much influenced by what India said.

13,147. They did not think of India when they did it?—I think they did consider the disadvantages of depreciating silver, because there was a very powerful and vocal party which expressed that opinion; but the final decision went contrary to those arguments.

13,148. Again, with the triumph of the gold standard in 1896 I believe, in America, and the adoption of the gold standard by Japan and Russia in 1897 silver depreciated further to about 22d. in 1908. That means that in the course of about 40 years India's stores of value in silver, depreciated to ⅓rd of their value in 1869, through the deliberate action of other countries. Why should India now show any scruples about the effect a particular policy proposed to be adopted by her may have on foreign countries or foreign interests?—I do not think they need if it is for an important advantage. My argument was on rather different lines. I was suggesting that India was herself one of the greatest holders of silver in the world, and that it was the Indian silver interests which ought to be regarded and not the foreign silver interests.

13,149. Do you refer to the producers of silver in Burma?—India is one of the greatest owners of silver in the world, and therefore India, as I say, has an interest in considering the value of silver.

13,150. The domination of silver in her currency has cost India huge losses in the past. If she chooses now to break away from silver, in order to safeguard her future and come into line with gold standard countries and is willing to undergo a temporary sacrifice what objections would you still have to the proposed gold scheme?—I think she must weigh the consequences. I do not at all say that India ought to support silver at all costs. I agree that the past experience of India in relation to silver has been unfortunate in many ways. I think it is a pity that India is such a large holder of silver; but, that being so, she must not forget it. Silver must not be treated as a foreign interest. Silver is very greatly an Indian interest, and from that point of view I think India would be well advised to go very cautiously. If there were great advantages in a gold standard I should weigh them against the disadvantages of depreciating silver, and I might quite likely come down in favour of a gold currency. My whole argument is conditioned by my assumption that there are no great advantages in a gold currency, and that being so it would be short-sighted to do something which would react heavily upon Indian holders of silver merely in order to satisfy what may be an ephemeral phase of public opinion in India.

13,151. Do you think India has advanced sufficiently in banking habits to be able to work successfully a paper control system, which has been rejected by England on the grounds that the time was not yet ready?—I am in favour of an exchange standard and the use of paper currency and rupees according to the experience and practice of the country. I am not quite clear how the question of the development of a banking habit is relevant to that.

13,152. A banking system must be introduced to a large extent among the people, so as to get them accustomed to the drawing of cheques, the working of the discount rate and so on?—I do not think that much affects the matter.

13,153. You are against the gold standard?—Yes.

13,154. You say it is "a barbarous relic"?—Yes; that is a correct quotation.

13,155. (*Sir Rajendranath Mookerjee.*) But perhaps for a barbarous country like India the barbarous relic may prove a blessing.

13,156. (*Sir Alexander Murray.*) So far as regulations of prices in India is concerned, does it make any difference whether we have a gold standard with a gold coin, or the old gold exchange standard and a regulated rate of exchange?—Very little, I think.

13,157. It is immaterial?—Practically.

13,158. We could have a gold standard without a gold currency?—Yes.

13,159. Personally you do not favour a gold currency?—No. If I am arguing on the basis of it being certain that India wants to have a gold standard of some kind, I should then prefer the gold exchange standard to the gold currency standard.

13,160. You think gold is better in the central reserve, so to speak, rather than in circulation?—Yes.

13,161. You consider it wasteful in circulation?—Yes.

13,162. Earlier in your evidence you differentiated between the reserve which England has to-day—the type of reserve which is really against external drain and the type which India should still have, which should be against an internal drain as well as an external drain?—If India had a gold currency she would need gold against an internal drain just as she needs rupees against an internal drain now.

13,163. We have had it put to us that in the past England adopted the process of keeping a reserve against internal as well as external drain; that is to say, when it had gold coins in circulation. Germany had to do the same thing when it went on to a gold standard in the '70's. Did Germany not prohibit the use of small Notes in order to get gold coins into circulation? It has been suggested to us that just as Germany and England had to go through that stage before they came to the present stage, surely India is entitled to go similarly through the gold coinage and circulation stage?—I think if India

wants to go through every stage she had better start with cowries.

13,164. I only want your opinion on that point, because it is an argument that has been put to us in India?—You mean the idea is that India is to begin by making all the mistakes that it is possible to make, and to adopt in turn all the obsolete currencies.

13,165. India has been on a gold exchange standard. England has now reached the gold exchange standard practically. It has been suggested that India, not having gone through the gold currency stage, ought now to go through the gold currency stage in order to familiarise her people with the gold coinage?—Nobody would make the same proposals as regards cotton machinery or motor cars, would they?

13,166. I am glad to have your opinion on that point. In connection with the ratio of exchange, I think in olden days you favoured the sovereign as being the suitable coin on the 1s. 4d. basis? Supposing the ratio is altered to 1s. 6d., what is your opinion in that connection now?—I have not thought much about that. At 1s. 6d. the sovereign is an inconvenient unit. I think you would need a gold coin which represented a more convenient number of rupees.

13,167. Does that suggest to your mind an Indian gold coin—either a 10 or 20 rupee gold coin?—I think of this as a mere matter of convenience. I have no particular feeling one way or the other.

13,168. Have you a feeling in favour of a high valued gold coin?—It depends on how serious you are in your wish to get gold into circulation. If you want to get gold into circulation I should have a relatively small unit, say 10 rupees or less. If you hope the people will take as little gold as possible then I would have a larger unit.

13,169. Your view in that connection would be that India should therefore have a large valued coin?—I would have as large a unit as possible, because the less gold flows into circulation the better.

13,170. In the old days it was really the sovereign that circulated more than the half-sovereign?—I believe so. I believe there were hardly any half-sovereigns in India.

13,171. I gather from your examination that you are prepared to give India a gold currency practically in order to placate Indian opinion, and even although Indian opinion may be misguided. How do you arrive at Indian opinion? You said you arrived at it, I think, by reading various publications, but do you recognise the difference between opinion in India and opinion at home with which you are more familiar?—Yes. I do not pretend to assert as a fact that Indian opinion is in favour of it. I mentioned it because it is often said that it is, and that seemed to me, if true, the most solid argument I have heard in favour of gold currency. Therefore I devoted myself to answering what seemed to me the most solid argument. But it may be that Indian opinion is not in favour. I am only going by the type of communication which this Commission has probably had in large quantities, and which I also receive through the post.

13,172. If you were to take a country like England, with a high standard of education where probably 80 per cent. of the people are urban as against 20 per cent. in the country . . . ?—Frankly my opinion is that Indian opinion is in favour of it, in the same sense in which British opinion was in favour of the gold standard a year ago. In this matter there is always only a small minority of the public who take any intelligent interest in it. If you take good class academic opinion in India, which I think ought to have some deference paid to it in a matter of this sort as representing true Indian opinion, I should have said that the weight of good academic opinion in India was in favour of a gold currency. Many professors whom I consider deserve respect in other matters have expressed that view, and although I disagree with them on that I do not think their opinion ought to be swept on one side.

13,173. I appreciate that. You think that the academic opinion in India, although of very small volume, is of such value that it ought to be carefully weighed as against the unexpressed opinions of 80 or 90 per cent. of the population?—Yes, I think it ought, because it is not only Indian academic opinion but there is also a considerable volume of Indian business opinion to the same effect. I think all the methods one has of gauging Indian opinion would lead to the conclusion that Indian opinion, so far as it is intelligent and articulate supports this.

13,174. At home they have not accepted the best academic opinion?—They have accepted the weight of academic opinion.

13,175. (*Mr. Preston.*) It is quite evident that you are aware of another side of Indian opinion regarding the propositions which the Commission have placed before you in the memoranda other than was evident to us. Therefore may I say that it will not come as a surprise to you if I were to state that the phase of Indian opinion which has been placed before you in that memoranda is not the only one which is existing in India?—I am glad to hear it.

13,176. Or in other words that there is a very heavy weight of opinion also in India which is not represented by that memoranda?—I am very glad to hear it, but I can only say that not much of it has come my way.

13,177. The old exchange standard which we had functioning in India from 1893 to 1914 was simple, public, automatic, and brought great advantages to the land of India, did it not?—I think it was the best currency system then existing in the world.

13,178. And had it not been for the war it is reasonable to suppose that that system would still have been in force?—I think so.

13,179. And there would have been no need for the Babington-Smith Committee or probably for this Commission?—I think that the conclusions of the Chamberlain Commission would have held.

13,180. This other weight of opinion recognised that that old exchange standard had been beneficial to the land of India had it been properly managed. They have come to the conclusion that during the war it was mismanaged. For our purposes now it is immaterial whether it was or was not, but, really speaking, it was about two-thirds on the way towards a simple gold standard, was it not, in its application?—Yes, quite two-thirds of the way to a gold standard, but to a gold currency not so far.

13,181. Let me call it a simple gold standard?—More than two-thirds of the way.

13,182. The concensus of that other opinion today, in so far as I can read it, is that they have no desire whatever to be guilty of, or to demand, any action from the authorities on this side which, in her claim for gold, would be detrimental either to this country's or to India's interests. They have also in view that, in her demand, they would not be guilty of any action which would in any way jeopardise the existing securities in the paper currency reserve or the gold standard reserve. What they desire is simply this—that it should be authoritatively constituted, that there should be a free and unrestricted import of gold and output of gold. In pre-war times the sovereign was the universal tender in India. The parity was 15 to 1, or the 1s. 4d. such as we knew it. Therefore the upper gold point was put down as 1s. $4\frac{5}{32}$d. The export point was put at 1s. $3\frac{29}{32}$d., and, whilst we allowed gold to come in, Government never accepted the responsibility of giving gold on the other sido for rupees. Therefore what they now desire is that that inequality, if I may call it so, should be rectified. So that, taking the changes which have happened since then, and taking the great changes and the difficulties which are in evidence here on this side, and of which you yourself have spoken

this morning, would it not be a reasonable and a fair proposition in answer to their demands to grant the concession which they now desire, namely, that our existing system should be so altered as to lead to a free import of gold and a free outflow of gold?—Yes, I think so. If it is settled that India is to have a gold standard of some kind, and if the feeling in India in favour of greater facilities for getting gold is to be met, I agree with you that the wisest way of doing it would be to have a statutory selling price for gold on behalf of the Government, as well as a statutory buying price. That is assuming that the gold standard is to be established.

13,183. Then they go further than that. They state that in their demands Government should only sell her Council Bills to the exact amount of their requirements. Consequently Government, having sold her Council requirements, which for the last year were about 40 millions sterling, the off-take for gold would not be more from this market or from the world's markets. We have it in evidence that it is from five millions to ten millions. Would that meet with your approval?—I should not have thought that the net takings of gold, if the Government had a statutory selling price, would be much different from what they would be if it had not a statutory selling price. That is your point.

13,184. The point is this. In the memoranda* which you have got there they present to you a bogey of 103 millions of gold?—That is on the assumption of a gold currency, but I think there is one point where I should differ from what you are suggesting. If the Government is to have a statutory selling price for gold it will have to hold a permanent gold reserve in India in order to meet that liability, and the amount of the normal aggregate of that gold reserve would be in addition to India's other gold requirements. Therefore, whilst it would be less than 103 millions, I think the statutory selling price for gold would mean some addition to India's net gold requirements in the first instance. After that reserve had been once built up, I do not see why it should mean any further increase.

13,185. What I am trying to arrive at is this—that the annual off-take from this market would never, on the average, exceed five millions to ten millions of gold?—I cannot say as to that, but I see no reason why the annual off-take should be increased. I do see, however, a reason why the initial requirement would be greater. The Government would have to hold gold in order to make sure of being able to meet its statutory liability to sell gold at fixed prices.

13,186. Then the idea underlying their request in that particular respect is this—that in the event of a falling away in exchange, and exchange falling to a lower point, her gold standard reserve it still intact?—Yes.

13,187. So that this extra off-take would not be required in any way whatever to maintain the exchange parity?—You would require an additional reserve, because you would have an additional requirement. The gold which India kept in India to meet its statutory liability to sell gold at a fixed price would be additional to the reserve which she would have to keep to meet external drains.

13,188. It would in its operation become additional?—But once that initial reserve had been built up I do not see that any more gold would be required than is required at present.

13,189. I would like to obtain your opinion on this silver bogey. From the best information which has been placed before us we gather that the total amount of rupees outstanding to-day is about 250 crores—possibly 300 crores as an outside figure, of which there are nearly 90 crores in the Government Treasury chest. Prior to the war it was always the policy of the Government of India to maintain about 20 crores as a working balance. Taking India's trade to-day at about 100 per cent. increased volume, and with the increase in population, and the possibility of increased trade, would it be unreasonable to suppose, as is the evidence which has been tendered to us, that the working balance would be a minimum one at about 40 crores, in comparison with the 20 crores in pre-war times?—My opinion would not be worth anything unless I could look into it more carefully.

13,190. Assuming that the 40 crores was a fair estimate, that would leave in our paper currency reserve about 50 crores. We have ascertained in evidence that the annual absorption of rupees is in the region now of nine crores per annum. On that assumption the excess stock would barely give us room for five years' requirements?—The arithmetic seems to be correct.

13,191. If that were the case would you say that the bogey of the selling of India's rupees was warranted or not?—I see no reason to expect that India would be selling rupees if a gold currency is not introduced, or, if a gold currency, being introduced, is inoperative.

13,192. The memoranda which have been placed before you suggests the sale, in view of that balance figure, of what they look upon to-day as redundant rupees. Assuming that our annual absorption is in the region of nine crores, with an increasing figure, is the reason for the suggestion of that sale apparent to you or not?—If I follow you rightly, you are going on a different assumption. The memoranda assume that gold will be introduced into India as the currency, and will circulate to an important extent. You are assuming it will not circulate, and therefore that the demand for rupees will go on as heretofore. So naturally the two assumptions lead to different conclusions. If no change is made in the way of introducing a gold currency, I quite agree that the present apparent redundancy of rupees in the reserve would be absorbed in due course.

13,193. Therefore this idea of a wholesale selling of rupees would not be warranted?—But that idea of a wholesale selling of rupees is made on a different hypothesis.

13,194. (*Sir Henry Strakosch.*) We have been told by some witnesses that the time is not yet ripe for India to establish a real Central Bank because its present banking organisation is too limited. Do you see anything in that point?—No.

13,195. Would you not rather say that a Central Bank would be very helpful in expanding the commercial banking organisation?—Yes, I should.

13,196. (*Sir Reginald Mant.*) When you advocated a variable rate of exchange, I assumed that there would be no place in your system for a legal tender gold coin?—No.

13,197. I understood from your subsequent replies that you did contemplate that?—No. I was doing that on a different hypothesis. I said assuming a gold standard is to be established in India then I thought that the statutory selling price might be introduced. If, as I consider the better policy, a legal gold standard is not introduced, then there is no place for the statutory selling price.

13,198. (*Chairman.*) We are very much obliged to you for your very valuable assistance.

*Appendix 95 (B).

(*The witness withdrew.*)

# THIRTY-NINTH DAY.

## Wednesday, 24th March, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER.
Mr. A. AYANGAR. } (*Secretaries.*)

Dr. EDWIN CANNAN, M.A., LL.D., called and examined.

13,199. (*Chairman.*) You hold the Chair of Political Economy at the University of London?—Yes.

13,200. You have been good enough to provide us with a memorandum,* on which I will ask you a few questions in order to elucidate certain points. You express, in the first instance, a general opinion in favour of a gold currency standard in preference to a gold exchange standard?—Yes.

13,201. You say that if you felt complete confidence that the principles of the gold exchange standard would always be properly carried out, possibly the weight of your opinion might be different?—Yes, that is so. I do not know of any country in which I have confidence.

13,202. That is the reason why you come to the conclusion that those principles would not always be properly carried out in the future?—Yes. I think it is very unlikely they would be carried out in the immediate future in almost any country.

13,203. Is your opinion in that regard based upon the experience of the past in India?—Yes.

13,204. In the past has India ever had a scientific and sound gold exchange standard? Let me point out the direction of my question. We have had a good deal of evidence to the effect that India has never had such a standard because, for instance, there was no legal obligation to sell the means of international payment either in the form of gold or exchange? In view of that it cannot be said that she has ever had a sound exchange stand?—If that is so that really illustrates my point, because if things had been properly understood she would have had it. It is really part of the same thing.

13,205. You come to the optimistic conclusion that things are better understood now. On the assumption that a sound exchange standard were to be established, would you still feel any confidence that the principles would be properly carried out?—I should not feel any confidence that the thing would always remain in competent hands. The management is constantly shifting, and you never know who may come in.

13,206. You lay particular emphasis in that answer on the hands to which the management of the standard is entrusted? We have had a considerable volume of evidence in favour of entrusting the management of the currency and of the exchange to a Central Bank. Assuming that such a change were to be made, would that make any difference to the weight of your opinion in this regard?—I think it is very difficult to make a totally independent management of that kind, and such management is always liable to be much interfered with by something done by the Government. I observe that in Poland lately, while the Bank circulation has been decreasing, the Government has been increasing theirs enormously. I do not think you could in India dissociate the Bank management entirely from Government management, and make the Bank entirely independent.

13,207. In other countries we are aware that standards which are essentially exchange standards are administered with apparent efficiency by Central Banks. What is there peculiar in the Indian conditions which makes you less confident of a similar result?—I do not know that I am less confident with regard to India than with regard to other countries, except in this—that the Indian management is rather more liable, I should think, to change owing to different people going out from England. I do not think any country has lately given a great example of independence on the part of Central Banks.

13,208. You think a higher measure of independence on the part of the Central Bank is necessary than that which obtains in this country as regards the Bank of England and the Treasury?—Yes, I think it is.

13,209. You think it would be desirable there should be even a higher measure of independence than that with which we are familiar here. In subparagraph A of paragraph 2 of your memorandum you say "Therefore, if I were myself an Indian, I should prefer the simpler gold currency standard as being less likely to be broken down by bad management." Will you explain to us in what respects the gold currency standard is simpler and less liable to be broken down?—I should have thought it was fairly obvious why it is simpler—because it is less dependent on all sorts of transactions regarding exchange, things which people do not understand, and more obviously dependent on simple currency conditions. I am rather impressed with the complication of the other system on reading about how it has worked in India in the last 20 years.

13,210. If I may suggest a comparison, not with the system which has hitherto prevailed in India, which undoubtedly had many complications some of which may be, in some opinions, held to have been unnecessary, but with a simple gold exchange standard based upon an obligation on the part of the Central Bank to buy and sell at fixed rates the means of international payment, what would you say to that?—I think when you get on to the bare bones of the gold exchange system there is very little difference between the two—some people say that this country is on a gold exchange standard system now.

13,211. Then I rather take your answer to mean that if the gold exchange standard system is defined with sufficient precision and reduced to its most scientific minimum, there is, in your opinion, no great difference in simplicity between that and the gold currency standard?—There is not, really, but

*Appendix 81.

I very much doubt whether the ordinary person will be able to understand it as well, even then.

13,212. In sub-paragraph B of paragraph 1 you say probably this is very largely a matter of national sentiment; the feeling being that Western nations adopted gold currencies in their own interests. Might not one say that they have also abandoned gold currency in their own interests?—They may have thought it was in their own interests, but I do not think it has been so, so far.

13,213. So far we have had the two systems standing on their own bases. They thought it was in their own interests to have gold currency, and the same tribunal now thinks it is in their own interests to abandon it?—I should think that Indian opinion believes they were right about adopting it. Nobody could contend that what happened lately during the war and afterwards was really in their own interests.

13,214. Leaving aside what happened during the war which was perhaps rather due to circumstances over which there was no control, and referring to post-war policy, it has been the case, has it not, that there has been a general move away from gold currency amongst Western nations?—I rather doubt that. I have not in my mind that any of the countries have renounced their policy except this country, and this country has renounced it only as a temporary measure; at least, the renunciation of gold currency has been put forward as a temporary measure.

13,215. We have had the opinion very strongly expressed to us by various witnesses that it is a probability that this country will return to a gold currency. Apart from the question of what ought to be done, what is your opinion as to what is likely to be done?—I think it is quite probable that gold will be allowed to circulate if people want to have it, but I do not think it is probable they will want to have it any more than Scotland or Ireland, or most of the British Colonies, wanted to have it before the war.

13,216. In paragraph 2 you say " The interest of Great Britain and the West generally is that India should be prosperous and well-satisfied, and to secure this Great Britain might well be content to incur some inconvenience." That is, in the provision of gold. We are looking at this entirely from the point of view of Indian interests, and I should like to know your opinion upon what, if any, inconveniences might be incurred by India in the event of the requirements of additional gold for India creating a disturbance in the world's gold markets?—I should think it would be inappreciable.

13,217. I suppose we must assume that it would depend on the magnitude of the disturbance?—Yes, but I do not think it could be very large.

13,218. Is that based upon your own calculation as to the amount of gold that would be required?—Even if it was considerably more, the share of India in the world's total inconvenience would, I think, be very trifling.

13,219. Supposing the amount of gold to be required was something of the value of 103 millions sterling: Would you contemplate the possibility of no disturbance to the world's gold markets such as might react unfavourably upon the interests of Indian trade and of the Indian community?—I do not think there would be any appreciable disturbance if the 100 millions was spread over some reasonable length of time.

13,220. That, as I understand, is based upon your analysis of the future relation between production and supply of gold, which is dealt with in your memorandum?—Yes.

13,221. Then you say, in paragraph 2, that the production of gold is likely to remain high for a considerable period yet and that if the East takes no more gold than before there is great danger of a further rise of prices in the gold standard countries. Evidence, on the other hand, has been tendered to the contrary and supported by statistics to show that future output of gold is likely to fall, and that the amount of current output available for monetary uses is likely to fall short of the mark, so much that unless the use of gold in the various countries can be economised there is bound to be a fall in prices. Can you explain to us what leads you to the contrary conclusion?—It is a question upon which experts differ. Some of them think one thing and some of them think the other, with about equal authority. Some think there will be a danger of a fall, and others think there will be a danger of a rise. I think these contrary opinions rather neutralise each other. Probably the truth is very likely to lie between them; that is to say, that there will not be very much difference. We have always to remember that supposing the value of gold does rise, the production will be larger than if it does not. The production of gold seems to be becoming very much a commercial matter like the production of other metals. You cannot look at the figures of the mining profits in the Transvaal without seeing what a very great difference a small increase in value is likely to make.

13,222. In your opinion do the available statistics show that the production of gold follows a rise in value just as effect follows cause, or, would you say there is anything to be said for the opposite proposition, namely, that the general price level follows the amount of gold which is available for monetary purposes?—I think, if you investigate the working of the mines at all, it seems quite obvious that the production does, to a great extent, follow the alteration of value. Of course, the mine-owners do not put it in that way; they say that the working costs have increased if the value of gold goes down.

13,223. It must, I imagine, depend to a large extent on the discovery of fresh sources for the supply of gold, and fresh processes for the extraction of gold from low-grade ores?—Yes.

13,224. Without such new factors there can hardly be any increase in the supply to respond to the demand, can there?—It simply means that low-grade mines are worked, and that the high-grade mines are worked rather faster perhaps.

13,225. Are there, within your knowledge, any potential sources of supply of gold in low-grade mines which might be worked in consequence of a rise in the value of gold, which are at present unworked—I mean any substantial possibility of expansion of supply?—I think so. It is pretty obvious that during the war, when the value of gold fell very violently, the United States production dropped off tremendously, and as to the Transvaal, you have only to look through the accounts of various mines to see that there is a considerable amount of production on the margin.

13,226. Then we should look to these potential sources in the United States and the Transvaal?—All over the world. I suppose something may be looked for in Russia after a bit.

13,227. There is a sentence headed A in your paragraph 2 which suggests a question not strictly in connection with what you are there discussing. You say " People who have once become accustomed to paper currency do not wish to return to gold coins." We have had considerable evidence as to the growing acceptability of a paper currency amongst the population of India, tending to show that the Indian people are becoming increasingly accustomed to paper currency. I would draw from your opinion the conclusion that such people would not wish to return to gold coins, and that if you offered them gold coins you might be offering them something which they did not want. Would that be your conclusion?—Yes. I think I state that somewhere in my memorandum. It is implied that I do not expect any of the Indian notes to be converted into gold merely because they can be so converted.

13,228. In your opinion, what are the advantages to be gained by making, as it were, an offer of a gold

currency which is not desired and which would not be used?—Because that is an essential part of the gold currency standard system.

13,229. It looks as if we are going in a circle, if we have gold coins because they are part of the gold currency system, and we have a gold currency system because it enables us to have gold coins. I was wondering what the concrete advantages were of a potential gold currency which is not used?—Merely because it is at the basis of keeping the gold standard intact, and prevents you having the complications of a gold exchange.

13,230. That is referring again to the greater simplicity as the concrete advantage?—Yes.

13,231. As to that, I think it is your opinion that, as between a refined exchange standard system and a gold currency system, there is not much to choose in the matter of simplicity?—No. I do not mean to say, of course, that gold coins might not be used for hoards instead of bullion. That is not covered.

13,232. That is a point which perhaps I might raise on another paragraph of your memorandum. In the final sentence of paragraph 2 you say, "Additional demand from the East, therefore, if on a moderate scale, is not to be feared but to be welcomed by the gold standard countries of the West." In the present condition of the currencies of the West and the circumstances surrounding the return to gold, do you think it would be welcomed?—There are no limits to human stupidity, of course. I daresay it would not be welcomed by everyone.

13,233. Has not one to consider not only things as they ought to be, but things as they are—the psychological factor? Do you think the possibility of such a demand from the East might cause, whether rightly or not, such apprehensions amongst those responsible for the currency systems of the West as would lead to disturbances, a rise of Bank rate, for instance, and other disruptions in the administration of our currency systems, which would have an adverse reaction on India?—I think that is really covered by the questions you asked me before. I do not think the effect in India would be appreciable.

13,234. In paragraph 3 you say, "I see no ground for supposing that if complete liberty of exchange of silver rupees and currency notes into gold coins were given at once all over India, there would be an enormous demand for gold coins, unless some ill-advised action had created distrust." Assuming that is so—that it would make no demand—nevertheless the obligation undertaken by the currency authority to give gold coins in return for token currency would be an absolute one—and would be one which would involve a very heavy responsibility. Even though it was foreseen that there ought to be no demand, do you think it would be prudent for a responsible authority to accept such an obligation without making adequate provision to meet it in case the more optimistic expectations were not realised?—I think "safety first" is the proper rule, and that it is desirable not to incur any greater liability than you are quite certain of being able to meet at any particular stage in the process. If you do that I think there is no danger in the proceeding.

13,235. Even if you were to accept the optimistic conclusion that it would lead to no great demand, it would not be prudent to undertake the obligation without making adequate provision to meet the obligation in case the optimistic expectations are not realised?—I think that stands to reason.

13,236. That raises the question of hoards held in India of silver rupees. You say "granting their existence." Have you any opinion as to whether they do exist or not? Are you able to express any opinion as to whether the hoards which are alleged to exist in fact do exist?—I have never been in India, and I do not suppose, if I had been, I should have been shown the hoards; but as far as I can make out there is no such reason to believe that hoards of rupees exist. I am told that hoards exist mostly in the form of gold and to some extent in silver ornaments, but not in rupees.

13,237. We have had very weighty evidence to the effect that, by a process of elimination, it can be demonstrated that there must be something between 100 and 150 crores of silver rupees held in one way or another as a store of value, in addition to the 90 crores which are held in the Government of India's reserves?—I do not know. It seems to suggest an extraordinarily small amount held for currency purposes. Five rupees a head seems an extraordinarily small sum for active circulation.

13,238. I will give you the actual calculations by which that is arrived at later. In the meanwhile you say that to bring these hoards out would be inconvenient to the owners owing to the risk of publicity and robbery. If the major portion of the silver is hoarded amongst the vast population of India, do you not think it would be possible to convert that into gold without attracting undue notice?—I should think the inducement to convert small holdings would be very small—much smaller than the inducement, if any, to convert the large holdings. If a person has only a small holding of silver coin he is likely to go on holding it, because when he wants to spend it, he will find the actual silver coins useful for his purchases. In the same way in this country the working classes hoard a certain amount of silver coin. The working classes here have far more silver coin than I have or any of the members of this Commission have.

13,239. On the ground that gold coins would be inconveniently big to hoard. You express the opinion that nothing can be gained by the hoarder except some saving of space, but would not there be a much more substantial gain to the hoarder if he is able, conveniently to himself, to substitute gold coins of full intrinsic value for an over-valued silver coin? There would be a greater certainty of safety, would there not, in his holding gold coins?—I do not see why.

13,240. Because the silver coins are not worth their face value, and he might fear, although there is no apprehension about the silver coin at the present time, there might be some day. Would not that be a substantial consideration?—I understand that that makes him hoard gold bullion at present. It seems to me that if you get on to a gold currency standard, and he understands that a 20 rupee gold piece and 20 rupees are the same thing, he is not likely to take into account any possible alteration in the ratios in the future.

13,241. In that respect you have taken into consideration the traditional desire of the Indian people for gold in preference to any other form of store of value, have you?—There is nothing to prevent them getting gold at present.

13,242. As long as there was no shock to the status of the rupee, you would not expect to see them prefer gold against silver coins in future, as I understand it?—Yes. I think they would have a shock if they were told their silver coins were going to be no longer unlimited legal tender.

13,243. So far I do not quite follow your line of argument, because in the next sentence you say, "No doubt in future those hoards, if any, which would under existing circumstances be made in silver coin, would tend to be made in gold coin." If there is any tendency in the future to make the hoards in gold coin rather than in silver coin why should that tendency not operate in precisely the same manner to produce the substitution in existing hoards of silver for gold?—I think that follows on the statement I made just before—that they would not be likely to bring out these silver hoards. They have already got them there, and they are stowed away somewhere, and there is no difficulty about the space. The space has already been obtained, and consequently they are not likely to bring out what they have already got. It is quite likely that future additions would be made in gold coins rather than in silver coins. For one thing, they would be additions to an already existing amount of silver coin in many cases,

and so there would be less need for changing them into smaller coins when spending them.

13,244. That would be the result of lethargy, shall I call it?—If you give that name to reluctance to undergo necessary inconvenience and effort, yes.

13,245. I am afraid I still do not quite see how you differentiate in this respect between future hoards and existing hoards. If there is any real reason to expect future hoards to be made in the form of gold rather than in the form of silver, is not that reason, if it be a real one, likely to overcome any disinclination to take a little trouble about existing hoards?—No, I do not think it is. The difference is not very great, and it would not be enough to overcome it.

13,246. In this connection, as regards the demand for gold, have you considered the effect of the introduction of a gold coin on the popularity and use of five and ten-rupee Notes? Do you see any reason to apprehend the substitution of gold in circulation for those Notes in circulation?—No, I do not see any reason, but of course I would defer to Indian opinion about that.

13,247. In paragraph 5 you say "The best way to impose the obligation is by requiring the Government to convert the silver into gold coin on demand, as was done in the German monetary reorganisation of 1870." That is the obligation to keep up the value of the silver. As I follow your argument it is that the principal basis of the maintenance of the value of silver is the limiting of the supply?—Yes.

13,248. And that is not only efficient but is actually effected in other systems. Why, if such limitation is not only efficient but can be practically effected, is it necessary to add the obligation to convert silver into gold coin in order to keep up the value? It is not found necessary in other systems, is it—for instance in our own?—No, but our own Government once gave an illustration of the necessity of it. For a long time they did not recognise the obligation to convert silver into gold coin. It is not officially recognised now, but it is being done. It seems to me better to make no bones about it but to put the obligation on the Government by legislation so that there can be no doubt about it.

13,249. What occasion have you in mind in our own case?—I had in mind the instance mentioned in the second sub-paragraph of paragraph 4, when there was an attempt made to popularise silver by the Government, and when they issued so much silver that it accumulated in the banks and the banks wanted to get rid of it; and the recognition of the obligation has taken place recently, when seven millions were put in the currency note reserve.

13,250. Then you would add this obligation by way of making the position more secure as regards the value of silver?—Yes.

13,251. Even at the expense of incurring the important obligation of making also the coin convertible into gold?—Yes, the same as the Notes.

13,252. Then we come to your actual practical proposals for effecting the transition. In the first place during the period of what you describe as the cautious and gradual introduction of the gold standard how would you propose to maintain tho exchange value of the rupee during that period before a gold currency standard is effectively introduced?—As at present, I suppose. I do not see that anything in this scheme would cause greater difficulty.

13,253. How long do you contemplate that your gradual approach would last?—I think I would leave that open so that no definite obligation should be undertaken which might conceivably not be able to be fulfilled, and I would carry it through fast or slow according as things went. My own impression is that it could be carried through very quickly without difficulty; but if difficulties were found in the earlier stages, then more time could be taken.

13,254. The period would be long or short in accordance with the success with which each step met?—Yes. At any rate you would have time at any particular stage to take steps to meet the difficulty, whatever it was.

13,255. Then during the transition period you would, as I understand, adopt a gold value for the rupee which would be the already established actual exchange market valuo of gold rupees?—Yes. Did I say market value? I meant the value as established by whatever operations are going on at that time. I would not try to make a change preparatory to putting this new scheme in force.

13,256. So if you were to initiate the system at the present time, the present actual exchange value in gold rupees being about 1s. 6d., you would proceed upon that basis?—Yes.

13,257. And you would maintain that value until your gold currency standard was introduced by those methods which are, in substance, that of an exchange standard, and which are at present in operation?—Yes. I think under my scheme the gold standard would really come into force very quickly, because it would be practically in force as soon as you got the bigger notes convertible into gold, because they could be operated on by exporters.

13,258. In connection with that proposal to which you have just referred, making the bigger Notes convertible into gold, would you stop the exchange of silver coin into Notes?—I had not thought of that.

13,259. Otherwise you are in substance making your silver coin also convertible, are you not?—As the scheme is only to be applied by stages, even that would only come in to the extent at which you could get bigger Notes. You have first to get your Notes and then exchange them for gold. If the Notes are not there you cannot do it.

13,260. If the Notes are not there? You mean supposing a tendency were to develop to convert the silver at this first stage by dealers and brokers collecting silver and exchanging it—getting silver for big notes and then getting gold against the big notes—you could check that, in short, by refusing to issue the big notes?—I am not quite sure whether that is legal or not at present. I think it ought to be possible under this scheme to refuse to issue notes in exchange for silver coin. I do not know whether they have to issue notes now in response to silver coin.

13,261. At present I think you can claim notes in return for silver coin?—Notes of any denomination?

13,262. I must just confirm that; I am not sure. It would be an essential part of your scheme that you should not be able to do so?—Yes. I should not leave a backdoor of that kind open so that the silver could be converted before I wanted it to be.

13,263. This is Clause 11 of the Indian Paper Currency Act of 1923. (Reads clause). That looks certainly as if you had a right to demand a note of any denomination in return for rupees?—I rather think that should be suspended.

13,264. Similarly you would also stop an exchange of small rupee notes into notes of bigger denominations?—I should think so. It is rather a matter of detail for those on the spot to settle.

13,265. So that that would be another backdoor by which your scheme might be broken into?—Yes, in the theory of the subject, but I very much doubt it in practice. But I should be inclined to stop them.

13,266. You say you would make the notes convertible into gold coin at the option of the holder, but proceeding by instalments, and in the next paragraph you say you would apply the same method to the silver rupees, taking them in instalments, beginning with those of most recent date. You mean a rupee which is marked as being of such and such an issue will become convertible into gold, but that previous issues would not be converted into gold?—Yes, unless you can devise some other means of dividing them into instalments. I very much doubt whether it would be at all necessary to divide them into instalments. I merely throw out that as a suggestion.

13,267. I was wondering whether that suggestion would really be capable of practical administration—

whether it might not have undesirable consequences. Supposing an uninstructed member of the Indian public were to come with 20 rupees and to ask for gold against them, and he were to find that half his rupees could be changed into gold and the other half could not, would not such an event as that be likely to administer precisely that shock in the confidence of the status of the silver rupee which you desire to avoid?—I think the probability would be that when the uninstructed member came with a few rupees like that you would convert them all without trouble. My plan, I think, would stop large operations.

13,268. Then we must consider that it may not perhaps be an uninstructed member of the public with 20 rupees. It may be a dealer or broker who has collected 5,000 rupees and who brings them for conversion and finds that a certain proportion of them are not convertible?—Well, he ought to know.

13,269. He would find that a certain number of his rupees seemed to be less good than the others. Would not that be likely to administer a severe shock to the status of the rupee?—It might give rather a shock to the ones that were not convertible, but it would not give a shock to the ones that were, which are the ones you have to deal with at the moment.

13,270. This differentiation would be made between the various classes of currency and their convertibility. Would you see any apprehension of it having an undesirable consequence upon one class of currency in contrast with another?—No. I do not see how that could arise. When the thing once began people would understand it was going to be carried through and that they would all be on the same basis.

13,271. I want to return to the general aspect of your proposal. In a previous answer I understood you to express the opinion that it would be prudent and necessary to take into account that the initiation of convertibility might not pass so smoothly as one might hope, and it might result in a demand for conversion. May I say that it appears to me rather as if your scheme was based on the elimination of any possibility of any form of internal crisis occurring at any time. Might not some crisis due to bad trade or failures or so on lead to that demand for gold being realised which you expect in normal conditions would not be realised, or do you think one can eliminate those apprehensions?—I think so. I cannot see why the process itself should cause any difficulty. If you have crises and difficulties they may occur independently of it, and I do not see that it is going to add to them in any way.

13,272. I do not suggest that the crisis might be the consequence of the adoption of the scheme, but that it might occur from such causes as do from time to time cause crises in the confidence of the currency of a country. Such a crisis might lead to the materialisation of that demand which under normal circumstances would not materialise. I was wondering whether you think some consideration ought to be given to that? I do not see exactly how it is going to interfere with it.

13,273. For instance, that might lead to a general demand for the conversion of rupee hoards into gold. It might lead to a widespread demand, limited of course by the contractability of the currency, of the conversion of notes and rupees in circulation into gold, and thus be a very heavy drain on the gold reserves of the currency authority?—I think those difficulties would be met in the usual way. Those difficulties would be present after the whole thing was adopted, and I do not see that the transition is going to be made more difficult by them.

13,274. I was contemplating such an occurrence occurring even after the full establishment of the scheme. The usual way, and the only way, to meet such a crisis would be by the provision of gold, would it not?—Yes. The whole thing is built on the supposition that you have enough gold to meet any demand.

13,275. Would you contemplate that there should be at the command of the currency authority enough gold to meet any such potential demand, even in a time of crisis which might cause the failure of the more optimistic expectation that there would be no substantial demand?—I contemplate what happens in any gold standard country—that you have to keep enough gold to meet the demands upon it.

13,276. The gold required by India under these conditions would be gold for the substitution of whatever notes and silver could be spared from circulation in critical times, plus the gold required for converting the hoards of silver. I think that would be so, would it not?—Presuming that there are great hoards of silver rupees, that might make the situation somewhat more difficult, but I do not know that the fact that there are large hoards of gold would not make it rather easier.

13,277. I was not taking into consideration the hoards of gold.—But I think you have to.

13,278. Surely not for conversion into gold? I was considering the additional demand for gold in times of crisis for the conversion of silver rupees and notes. That leads me to the question, Have you been able to form any opinion as to what extent and in what manner it would be necessary to fortify the reserves of the currency authority in order to enable it to contemplate with equanimity the transition to the system which you propose?—I have not formed any opinion further than that you must do it enough to satisfy the people. This country recently fortified its resources enormously by entering into a very expensive contract with the authorities in the United States, and it turned out to be perfectly unnecessary, but I am not saying that it was not politically necessary to do it.

13,279. You contemplate it would be prudent for an Indian currency authority, in order to ensure confidence, to fortify its resources in some similar manner?—I should think it very likely, and I hope in a less expensive manner than this country did it.

13,280. In what other manner do you think it could do it?—I should not have said "expensive manner." I meant "expensive terms."

13,281. It can do it in two ways. It can realise its gold securities in this country in the form of gold, or it can raise fresh credits abroad. Is there any other manner which suggests itself to you in which it could secure further resources?—No.

13,282. Those methods would involve additional expense in the loss of interest on interest-earning gold securities, and the charges in respect of the fresh credits?—Yes.

13,283. On a point of general principle, I understand you are contemplating a gold standard really without a gold currency in the same sense as the one in the United States?—Without *much* gold currency at any rate. It might be more than there is in the United States. One way in which I think there would be more—in a somewhat doubtful sense of "currency"—is that I think the hoards would be more likely to be made in gold coin than in gold bullion. At any rate, I think there would be a tendency to have more in gold coin and less in bullion. Those hoards every now and then are spent, and the money would have a tendency to come out into circulation. So that I do not think you would get into such a completely goldless state as the United States is in.

13,284. On the assumption that the introduction of the gold currency system were to lead to a substantial gold circulation in India, would you then still favour the system?—It seems to me a question of degree rather. If there was to be nothing but gold circulating in India, it would be a very expensive business, and I should begin rather to kick at the expense if I were an Indian.

13,285. If the introduction of a gold currency were to lead to the substitution of gold for notes in any large degree, you would look upon that as an unfavourable change, would you?—Unfavourable as far as it went, yes.

13,286. In the third sub-paragraph of paragraph 7 you say, "At the present moment hoarding is said to be in the form of uncoined gold, and it would certainly appear likely that gold coins, each of which was a definite number of rupees, would be preferred to bullion wherever no question of ornament or ostentation arises." Would that in your opinion be a desirable change or an undesirable change?—I think on the whole it would be desirable, because it seems to me that if an uninstructed person has a hoard of gold coin he is much more likely to be attracted by the possibilities of investment than if he has only got it in bullion. If it is in bullion he has got to sell it, and he may hope to get a rise in price later on. Various things may prevent him from selling it. But if it is in coin he is more likely, I think, to believe it will be rather a good thing to get interest on it when he knows he can get back, under this system, gold coins from a solvent borrower—the bank, or the Government Savings Bank, or something of that kind. Consequently it seems to me he would be more likely to take out his hoards and let them get into use as capital. He might be inclined to think it would be a very good thing.

13,287. May I put it to you from the point of view of the currency authority which would be responsible for the maintenance of the exchange. In order to maintain exchange it must be able sensitively to contract the currency at times of weak exchange. If the gold hoards are held in the form of bullion which is not available for currency, then they cannot affect the matter. If they are held in the form of gold coin, which are available for currency, then there is a potential weakening of the power of the currency authority to contract the currency, is there not?—No, I do not think there is.

13,288. If you have a volume of potential currency which is not in active circulation, which can always be poured out into circulation, does not that weaken the power of the currency authority to contract currency?—When you are talking about being poured out into circulation, it only means that it can be invested or spent in the purchase of commodities, and I do not think it would be the usual view that gold coming out in that way would make it more difficult. You will be trying to put things right, I suppose, by exporting gold. It might mean you would have to export more. It would be there to export. I do not see you are going to lose anything by it.

13,289. In the next paragraph you say: "If the reserve is to be kept up to its present nominal magnitude and the silver rupees in it can only be sold in the world bullion market for 9d. instead of at the rupee value of 1s. 6d., this cost will amount to about 33 millions." That is on the assumption that gold is not required for the hoards. Would you feel able to express any opinion as to the effect upon the world silver market of the sale of the 90 crores of silver rupees held by the Government of India in its reserve?—No, I am afraid I do not know anything about the silver market. I suppose for some time some countries which have now very small paper will be using silver currency to a certain extent, and therefore make a bit more demand for it.

13,290. I am not sure that I follow that?—It is only a suggestion that there may be rather an extra demand for silver within the next few years owing to various countries who have at present got down to a very small paper currency taking that out of circulation and substituting silver coin.

13,291. Is there any indication of any such tendency in important countries?—I am under the impression there is.

13,292. I was trying to think of an instance. Can you assist me?—I think Poland is putting a certain amount of silver into circulation. I thought it was rather common on the Continent.

13,293. I thought the tendency in Poland was in favour of small notes?—They have put out a certain amount of silver coins. Eighty-nine million zlotys.

13,294. The amount of silver to be sold, on the assumptions made, would be three times the world's total annual supply at the present time. Do you think that the facts to which you have referred would be an important factor to set against such an increase in supply?—I do not really know anything about the silver market, and I would rather not express any opinion on that. May I go back to a question you asked me on a previous paragraph? I think the coming into circulation of gold out of hoards is really not to be put on the same level as the coming into circulation of paper out of hoards. If paper comes out of hoards it gives rise to great difficulty, but I have never heard of gold coming out of hoards giving rise to any difficulty.

13,295. The difficulty to which it would give rise would be increasing the total volume of the circulation at the same time as you were trying to diminish it. On mere arithmetical considerations it seems at first sight as if it must weaken the control of the currency authority.—It gives you rather more to export, but it is so easy to export that I do not think that that may be regarded as a difficulty.

13,296. In your final paragraph you strongly protest against any provision that the reserve shall not be allowed to fall below some stated ratio, and you add that a reserve should be usable down to the last penny. If there is no prescribed ratio between the metallic holding of reserve and the total issue of notes, is it possible to secure any automatic contraction of currency which such contraction would require for the support of exchange?—I think the contraction is quite independent of any such provision. There is no such provision in this country at the present time. The Bank of England can use up every penny of its reserves at the present time. If notes are presented the Bank of England can go on cashing them right down to the point when all its gold has gone, and when it still owes 20 million on notes.

13,297. You prefer, as regards the provisions affecting the reserve the method of establishing the reserve by limiting the fiduciary issue to a fixed amount?—I think that system has worked practically well in England, but I think the principal thing really is to secure convertibility. If you have got ready convertibility, everything else comes.

13,298. (*Sir Henry Strakosch.*) I gather that you suggest the point at which the rupee should be stabilised should be 1s. 6d.; that is to say, the value at which it has been maintained for practically a year?—Yes.

13,299. May I ask why you propose that the rupee should be stabilised at that point?—Because I do not wish to incur the difficulties caused by any change.

13,300. We have been told in evidence that to stabilise the rupee at 1s. 6d. would inflict damage to certain classes of the community, having regard to the fact that the rupee, in pre-war days, was stabilised at 1s. 4d.?—I do not think it would be desirable to go back so far as that on a matter of that kind now. It inflicts injustice upon many people in England that the pound does not go as far as it did, but we do not propose to alter it.

13,301. What would be the effect, if the rupee was stabilised at 1s. 4d.?—I suppose you would have to water the currency in India in order to do it, with the usual results.

13,302. It would induce a rise in prices, and so forth?—Yes.

13,303. Could you tell us to what you ascribe the fall in the purchasing power of gold in the period from about 1853 to 1873, and the rise in the purchasing power of gold in the period from 1873 to 1896?—I have no doubt it was due to the conditions of production in those periods, to the greater influence of the Australian and Californian discoveries, then to their being worked out, and a dull period following.

13,304. So that you would ascribe the rise in commodity prices in the first period, and the fall in the

latter period, to the volume of production of gold in that period?—Yes, and to that not being counteracted by movements in the other direction in the way of demand.

13,305. I do not follow?—I mean that is only looking at one side of it. You have also to think of the demand side. The conditions of demand did not counteract those of supply. They did not go in the opposite direction. Otherwise the movement would not have been so strong.

13,306. I now come to your proposed scheme. If I have understood you correctly, what you contemplate is that the currency authority should not undertake the definite obligation to convert the rupee coin and notes, but rather to observe how, under your scheme, the matter would work. That was your suggestion, was it not?—I suggest that it should be done by instalments, so that if unexpected demands arose at any point you would be able to meet those, and take steps to meet demands that you might expect in consequence of that experience, or possibly to take longer in meeting them, or to take any measures that might be necessary. I do not mean to suggest that the thing should be entirely tentative. The way you put it rather suggests that I mean it purely as a tentative scheme. I did not mean that.

13,307. You would observe how things are going when the big notes are free for conversion, and then the smaller notes?—Yes.

13,308. You stated in answer to the Chairman that you would make it illegal to demand notes for rupees, and you also said you would stop the exchange of small notes into large ones because, of course, your scheme might be made nugatory by those exchanges? —Yes.

13,309. What do you think the effect upon the community would be if you enacted these things—if you stopped the conversion of rupees into notes, and small notes into large notes? What effect would that have on trade in the country?—Would not it take place rather by fixing the maxima of the notes of each denomination than by suspending them? The way you put it rather suggests that all conversion of them would be refused. I am not sure that this discussion does not suggest that it would be better to issue a new set of gold notes instead of trying to use the old ones—whether it would not be better to begin with a gold issue of notes and not complicate it with these difficulties which have been suggested here. That comes to the same thing. I only suggested this scheme, because it seemed to do without the necessity of printing a whole set of new currency; but perhaps it would be better to start by issuing notes convertible into gold and gradually substituting them for the silver notes.

13,310. I cannot quite follow how your scheme of issuing gold certificates would work. Would not that create exactly the same difficulties? Let me put it in this way. If there is a real preference for gold or gold notes, would you not have to face exactly the same difficulties if you offered gold notes rather than gold coin?—I do not quite see the difficulty.

13,311. My point is that if there is a real preference for gold or gold notes, and if you adhere to your scheme, the big notes would be in demand for conversion into gold or gold notes, and the same manœuvres attempted of exchanging small notes into big notes, and rupees into notes that happened to be convertible into gold. That, I understand, you propose to counter by making it illegal to convert rupees into notes, and by making it illegal to exchange small notes for larger notes?—It would not be making it illegal exactly. It would be depriving the holder of the right to have them exchanged.

13,312. You said, in reply to the Chairman, that you did not think that would produce a premium on that class of currency which happens to be convertible?—It ought not to if the scheme is going all right, because the rupee is worth 1s. 6d. and the rupee would be homogeneous. I do not quite see why some of them should be worth more than others.

13,313. Why did they pay in the East End early in the war 22 shillings for sovereigns? I remember there were prosecutions in the Court about it. Did they not pay a premium for exactly the same reason that they might pay a premium for notes that happened to be convertible into gold in India under your scheme?—The reason you could get 22s. for a sovereign was that sovereigns ought to have gone out of circulation. The exchange ought to have carried them all away, but it was not allowed to do so, and in consequence, if you had any you could get a dishonest jeweller to give something more for them. But in this case the exchange would keep things straight, surely? There would be no chance of the gold coin going to a premium.

13,314. Was not the sterling exchange in those early days of the war at gold par, and remained so practically until the end of the war?—But it was of no importance; you could not do anything freely. The exchange was only a nominal affair. It was not really at that rate.

13,315. Then another point. Who, in your view, should be entrusted with the management of the currency in the future under your own plan?—I do not feel that I am familiar enough with Indian conditions to answer that question.

13,316. You would not care to express a view whether it should be the Government or a central bank or some other authority?—No. The only thing I have a view on is that I am rather inclined to think that conversion of bullion into coin ought to be done by the Mint and not by the bank offering prices for gold. I think it makes the thing altogether simpler if the Mint itself takes the business on and undertakes to do it without the gold coming through the central bank. Of course, it would work chiefly with the bank, but I should not put it in the same wording as it is done in legislation in England. It seems to me a very peculiar wording, and a wording which gives rise to a great deal of misapprehension. It seems to me it is much simpler to say that bullion shall be coined into a certain amount of coins than to say that the bank is to buy its bullion at certain prices.

13,317. How would you make the token money convertible into gold? Would you entrust that to the Mint, too? I am speaking of notes and rupees? —That would be entrusted to the Central Bank by circumstances, I suppose. Any excess of token coinage is always likely to drain into the banks, and the banks would deal with the central authority in the same way as they have done here. It causes little public comment that that £7,000,000 appeared in our currency note account without anyone having thought of it before, or having known anything whatever about it; but I suppose what happened was that when the banks got a good deal more silver than they wanted they asked the Bank of England to take it, and the Bank of England did not want to take it and finally arranged for the Government to buy it, and the Government bought it.

13,318. You do not attach any great importance to an amalgamation of the currency and banking reserves of a country in the hands of a central bank? —Yes; I think there ought to be amalgamation.

13,319. It is beneficial for the country to amalgamate them?—Yes.

13,320. (*Sir Reginald Mant.*) In paragraph 6 of your memorandum, in describing the steps by which the transition to a gold currency standard could be effected, you propose to "suspend all additional issues of silver coin, and stop all additional issues of notes redeemable in silver." How would demands for additional currency in India be met under that scheme?—By an introduction of gold and gold notes —notes redeemable in gold.

13,321. You mean that the people who required currency would have to bring gold into India and present it at the currency offices to obtain gold notes? Is that how it would work?—If additional currency

was wanted it would come in in that form. Of course, in the end more of the small currency might be wanted, but the demand for small currency is not so very rigid that the amount would be left alone for a short time—even for a few years.

13,322. I was not referring to the small currency. I was referring to the total volume of currency. Taking the statistics on the absorption of currency in India during the 10 years ending 1924-25, the average annual absorption, as I have worked it out, was 27½ crores. That is notes, sovereigns, half-sovereigns and rupees?—Yes. Well, any increase in the total currency would be met in that way. This whole scheme suggests that, does not it—that the future additions to the general volume of currency are to be met in gold or gold notes? I do not see what else the introduction of the gold standard could mean but that.

13,323. I only wanted to be clear in my own mind how the scheme would work. You would practically force the import of, say, 27½ crores a year, assuming the demand for currency remained on that basis, in order to meet the annual expansion in currency?—Yes; but that would be subject to there being some reduction from there being notes not entirely backed by bullion.

13,324. I did not quite catch that?—The total amount to be imported would tend to be diminished by the addition of uncovered notes. So far as the notes were uncovered, of course the new currency would be met by them.

13,325. I do not quite follow that.—Part of the additional currency required in every country where you do not dequire bullion to be kept against every additional note is met by the increase of fiduciary currency. That is all that I meant.

13,326. But under your scheme there would be no further issues of silver notes or rupees, so that the whole increase would have to be met by the import of gold?—By the import of gold or gold notes, or uncovered gold notes.

13,327. Do you mean that the Government would issue gold notes payable in gold without receiving gold for them?—I presume that some of the gold notes would be fiduciary.

13,328. I understood from paragraph 7 and its penultimate sub-paragraph that you intended that the reserve against notes should be held entirely in gold. I thought you meant that you would retain a full gold cover for all the gold notes that you issued?—I am afraid that is rather a mistake there. To be quite clear I ought to have said metallic reserves. I am sorry.

13,329. So you would issue gold notes against a certain amount of fiduciary cover?—Certainly.

13,330. (*Sir Purshotamdas Thakurdas.*) I think you said that between gold standard and refined gold exchange standard you did not think there was much to choose. I take it that you meant that technically there was not much to choose, but by actual experience in India the gold exchange standard has proved to be unreliable?—Yes; that is practically what I meant. If you had a gold exchange standard perfectly managed by perfect people it would not be practically different from a gold currency standard; but the difficulty is to get the perfect people.

13,331. In paragraph 2, sub-paragraph 2, under (*a*), you say: "People who have once become accustomed to paper currency do not wish to return to gold coins." I take it that there also you have this in mind, that when people get a currency which has their confidence they do not wish to see the coin, but they are quite satisfied to use the paper which is backed by the metal which inspires their confidence?—Yes.

13,332. To that extent there is no reason to doubt that if India also got the currency which she aspires to have and which has her confidence, in course of time it is quite possible that the people may not wish to see the coin in circulation, but may be quite satisfied with paper backed by that coin, or by that metal?—Yes; that is so.

13,333. Relating to hoarding of rupees, it has been put to you whether you think that gold is required (1) for conversion of silver in circulation, and (2) for conversion of silver in hoards. I think you replied that the Government would have to provide gold for both those purposes. Is it not reasonable to expect that in view of what is called the traditional desire of the people of India to hold gold rather than silver most of the silver hoards, if any exist, must have changed into gold already?—Well, that is rather suggested by some of the statements I find about the immense amount of silver rupees exported from India during the high price of silver. It looks as if those must have been taken out of the hoards.

13,334. The price of gold to-day in India in rupees is lower than it was before the war. It is about 21 rupees 6 annas per tola against 33 rupees per tola, which is about the highest point that was reached during the war period and immediately after it. If the traditional taste or partiality of the people of India for gold in preference to silver is to be relied upon, would it be reasonable to infer that at 21 rupees 6 annas, which has been the rate ruling for the last 12 months, those who hold silver rupees in hoards may have changed them?—Yes; I think so.

13,335. It would then not be necessary to calculate this amount twice over, namely, gold for conversion of rupees in hoard and rupees in circulation?—No.

13,336. Regarding what you say in the last paragraph under your Section 3, you say you have no doubt in future hoards would tend to be made in gold coin. A view has been put before this Commission that if gold coin is available by Statute on demand, having regard to ordinary human nature and the fact that familiarity breeds contempt, if it does not breed contempt in this instance it may at least prevent a man from yearning for gold which is always available to him. Is it not likely that the hoarding habit of the people of India of which one hears so much may undergo a change, and that the people may slowly give up hoarding?—That is just what I suggested—that having gold coin was likely to cause less hoarding in the end because the temptation to invest it would be greater than it is with bullion.

13,337. You would give it all the greater weight if this same view has also been pressed by Indian witnesses whose opinion ought to carry some weight?—Yes.

13,338. And it would carry further weight if that view was also suggested by some of the important officials of the Finance Department who may have had occasion to give their views to this Commission in their personal capacity?—Yes.

13,339. You were asked regarding what would happen in the case of a crisis due to an unusually large quantity of token coin being tendered. The danger of such a crisis is likely to increase as more token coins are minted, and if the present system is continued for several years more? The token coin I refer to is, of course, the rupee.—Yes.

13,340. The token coin in circulation at present in such a large quantity as 300 or 350 crores is already a considerable source of embarrassment to anyone who wishes to devise a scheme for a gold standard for India. If the same system of currency is continued for another 10 or 15 years the danger is not likely to decrease, but it is likely to increase, is not it?—Yes. It seems to me that the situation has been much helped really by the rise of silver which took away a lot of the circulation, and it is rather a pity to go on some years and get back to the old state of things again.

13,341. You were asked regarding the ratio, and you repeated as you said in your written statement, paragraph 6, that you are in favour of the 1s. 6d. ratio being confirmed. I wonder if I may ask what importance you attach to the word "established," which I see in your statement in paragraph 6? You say: "To combine the reform with a departure from

the already established actual exchange market valuo in gold of the rupee." Would you call it established if it shows signs of fluctuation at frequent intervals unless supported by management by the Finance Department of the Government of India?—Well, the ohoice of those words: "the already established actual exchange market value in gold," is rather careful as intending to mean whatever was the normal thing of the moment.

13,342. Did you say "normal"?—Yes. I did not want to commit myself to saying that 1s. 6d. was that established ratio, because I thought perhaps it might be 1s. 7d., or 1s. 4d., or 1s. 5d., or something like that. I do not know very much about it, and it might be altered. So that that was intended as a purely neutral phrase. What I objected to was any considerable change in the value of the Indian currency being made.

13,343. Change from what? From the ratio existing, shall we say, to-day, or prevailing at the time when the Commission is drafting its report, or prevailing at the time when the necessary legislation is undertaken by the Government of India in the Assembly?—I think that the effort on the part of the Indian Government ought to be to have no further change. It ought to do its best to keep things where they are, so that things would remain pretty much where they are when this change, if it is recommended, is being brought into force.

13,344. I take it, then, you would say the same whether the ratio was 1s. 5d., or 1s. 8d., or 1s. 9d.?—Yes.

13,345. Irrespective either of the methods employed in reaching that rate or the risk entailed in what is called the maintainability of that rate in a series of years, including, say, a couple of lean years?—Yes.

13,346. Would you not attach any importance to the possibility of that rate being maintained in abnormal years such as are not without precedent in India?—Well, if I was convinced that the 1s. 6d. at present is abnormal I should say: "Well, do not stick to it—do not adhere to that, but go to whatever you think right."

13,347. You would not in that connection give considerable weight to the opinion of commercial bodies of standing who have been watching the position very closely, and who may feel justified in expressing their opinions regarding the maintainability of a ratio?—Well, I do not know whether I do attach much importance to the opinions of bodies of that kind. There are many of them in this country, too, that I do not attach much importance to.

13,348. Would you then go on past experience?—Yes.

13,349. Take the instance of the last Committee which thought that a 2s. rate would not be very difficult to maintain. The Government of India gave that opinion their blessing?—But was not that 2d. higher than what it really was at that time?

13,350. I think lower. After that it went to 2s. 4d., 2s. 6d., and 2s. 8d.?—That was against pounds sterling, and pounds sterling were then considerably depreciated against gold. What they recommended was 2s. gold. The pound sterling was not 2s. gold then; it was only about 1s. 10d. gold. That is a point often forgotten.

13,351. Even 1s. 10d. gold was a ratio which they could not maintain for more than a few months?—It was pretty rash. I should think the present rate is much more stable than that.

13,352. Would it be correct for me to infer that you would like the question of the maintainability of the existing ratio to be examined by this Commission before they confirm the 1s. 6d. ratio, which is *de facto*, for the statutory ratio?—I think so, certainly.

13,353. (*Professor Coyajee.*) It has been argued before this Commission that the present moment is a bad moment for nominating the gold standard or the gold currency, because you must wait to garner the experience of those countries who are going over to the gold standard, and profit by that experience before we take a similar step. What is your view of that argument?—That is what all countries said after the war, "We must wait for somebody else." I do not know that I have any other opinion on it than that.

13,354. There is another contention that the gold standard nowadays is as much a managed currency as any other kind of currency, if you take into account the fact of banking control?—Well, I think the people who say that often wish that it really was. They dislike it because they cannot "manage" it.

13,355. The scheme which you have planned out would give a limping standard to India?—I do not attach any importance to that phrase "limping standard." It was invented by the bi-metallists as a term of abuse, I think; but it really has not made any difference to the United States, or France, or Germany that they had some unlimited legal tender silver.

13,356. Your paragraph 7 says: "The answer is that she will have it in the same sense as the United States has it." That is to say, you suppose that India will have from the start really very little gold currency?—Yes; I think it will have very little gold currency in active circulation, but I think it may have a considerable amount of gold coin so long as the hoarding habit goes on, because it seems to me that a considerable amount which is imported into India at present for bullion hoards would after the scheme came into force be imported for gold-coin hoards. I do not think that makes any practical difference.

13,357. What is said is this, that in order to have any educative value as regards the hoarders a considerable amount of gold currency should be in circulation to ensure a ready return to the hoarders of any gold coin they might part with; and it is only in so far as they see this lot of gold change hands that they will be reassured, and will bring out their hoards for investment?—It seems to me good will be done by the coins given you to be hoarded, in the first place. In that connection I rather doubt whether the preference for the sovereign is really justifiable. It seems to me that it would familiarise people more with gold coin and make them think more definitely that rupees and gold were the same thing if you had a gold coin of your own, 20 rupees, probably. Ten rupees is rather small, and 20 rupees would be a very nice coin. I attach rather more importance to having a real Indian coin than seems to be done by other people.

13,358. A 20 rupee coin would be too large in value for daily use?—It would be very nice for hoarding.

13,359. It would be very good for hoarding?—And if you knew that you could get a 20 rupee coin for two 10 rupee notes, and *vice versa*, it would be quite satisfactory. The sovereign brings in the half-sovereign along with it, and the half-sovereign is very well known to be rather a tiresome and expensive coin—it is too small—and the conversion terms are inconvenient. It is much more convenient to have 10 and 20 rupee pieces than it is to have pieces of 13 and a third rupees, or even 15.

13,360. If we abandon the sovereign do not we lose its great traditions for export purposes? If export is necessary, it is much better to have a sovereign at hand than any local coin?—I think if you had a 20 rupee piece which was exactly a sovereign and a-half, it would be accepted all the world over, just as well as the sovereign, providing your Mint was well known to be all right.

13,361. (*Mr. Preston.*) In response to a question which the Chairman asked you with regard to the methods whereby additional gold might be obtained, you said you thought two sources were possible—either the sale of securities or the arrangement of a credit with America. The last Indian currency return that we have had from Calcutta, dated the

11th March, shows the securities in England in the currency return as against the corresponding period of 1925. In 1925 the total was 20 crores, and they are now 29 crores, which shows that additional currency has been given in India against gold funds in London, and those gold funds have been invested. If it were made possible, when this additional currency is required, to ship the gold to India annually, there would thereby be a gradual and quiet augmentation of India's gold stock, would there not?—Yes.

13,362. (*Chairman*.) Is there any other matter that you would like to refer to?—No; the only remark I would make is that I consider the fourth paragraph is the most important of all. I have not been asked any question on it, and I hope it is accepted.

13,363. That silver rupees should continue to be unlimited legal tender?—Yes.

13,364. I suppose we may assume that the argument was so clear that it needed no further elucidation; but it does not imply acceptance by all members of the Commission. The Commission are much obliged to you for you very kind assistance to-day?—Thank you.

(*The witness withdraw*.)

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# FORTIETH DAY.

## Friday, 26th March, 1926.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter, Mr. A. Ayangar } (*Secretaries*).

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Mr. Joseph Kitchin, called and examined.

13,365. (*Chairman*.) You are a manager and a director of the Union Corporation?—Yes.

13,366. And you are well known as a student of the matters which are contained in your memorandum,* with which you have been good enough to supply us? In the first place I must express the Commission's recognition of what cannot be supposed to have been other than a very great labour on your part in preparing a most interesting memorandum and tables. It remains only for me to ask you a few questions by way of bringing out certain points which seem to need emphasis or elucidation. In the first place, I observe you stress the enormous increase in the production of gold in the first quarter of the present century. As I understand it, a good deal of what you say about gold is devoted to showing that there is no reason to suppose that that rate of increase will be maintained in the future?—On the contrary.

13,367. You say that the principal goldfields of the world are either stationary or declining—that is in 1924 and 1925—and that there is a distinct indication that, although the world's recovery has perhaps not yet spent itself, any further advance, if it takes place at all, will probably be on a more moderate scale than in late years. The suggestion has been made to us in evidence that there is a substantial amount of low-grade ore which can be brought into remunerative production by any rise in the value of gold. Will you give us your general view upon that?—There is a very large amount of low-grade ore which can be brought into production, but to a large extent it has been really already brought in. The cost on the Rand—which supplies over half the world's production, had already been reduced to 17s. That will be further reduced, but I do not think you can expect any material reduction on that. The Transvaal itself, I think, is just on top of its highest point, and from now on it will decrease; and in most other countries of the world the output is either stationary or declining, as I have said. Canada is one of the exceptions. Russia may return to its former £5,000,000 a year.

13,368. There is not known to you any potential source of supply of gold which might be brought in by a marked rise in the value of gold in the immediate future?—Only on the Rand, I think, and I have taken that into consideration in suggesting what the future output there will be.

13,369. The possible increase from the Rand is taken into account throughout your calculations?—Yes.

13,370. You think there is no other source of supply?—I do not see any supply of importance.

13,371. It has been suggested that we may expect great improvements in metallurgical processes, which will enable gold to be produced more cheaply from low-grade ores. We have been referred to the history of such improvements in the past. What is your general view about the future of metallurgical technique?—If you go back only as far as about 1880 or 1890, I do not suppose that the average recovery of gold from its ores was more than about 60 per cent. To-day on the Rand it is easily over 95 per cent., and approaches that figure, I suppose, in other parts of the world. Most of the improvement due to metallurgical advance we have already seen.

13,372. That suggests that there is not a very wide scope for improvement?—That is so.

13,373. Taking up the thread of your argument as we go along, in paragraph 3 you say, "For the five years to 1929, the world's production may be estimated at £395,000,000, of which 1925 has already contributed £80,000,000. There is at present no reason to assume any higher figure for tho further period in 1935."—Later on I estimate the following

*Appendix 82.

five years at £365,000,000 against £395,000,000, and that, I think, is rather optimistic.

13,374. Then your method is to take the gold consumption for trade—that is, the demand for gold for other than monetary purposes—and then you take the difference as compared with the output of the year as the amount assumed to be added to the stock of gold money in the world?—Yes, after deducting, of course, the absorption of India and China, which are regarded as hoarding countries, because in practice they do not disgorge gold. My figures of the world's stock of gold money, of course, apply to the world's stock excluding India and China.

13,375. As regards India's demand for general purposes, I see it is your opinion that the immediate future will probably show a sensible reduction in the very great imports culminating in 1924 and 1925?—It seems to me that India has over-imported; that is, it has overstocked itself, and that in consequence of that its imports will, for the present at any rate, be on a more modest scale. Of course, that over-stocking is only temporary, I presume. I do not think one can take the past year or the last two years as indicative of the immediate future.

13,376. Over a uniform period of sufficient length the demand appears to remain remarkably constant, but there will probably be fluctuations?—I do not think that would be so altogether. As the gold output of the world went up very considerably after 1851, after the Californian discoveries, India came in with an increased demand, with a considerable lag—a lag of the nature of 10 or 15 years. Afterwards, when the gold production steadied down and became less owing to the petering out of alluvial, the Indian demand also steadied down with a very considerable lag. Consequently, it might be thought in the ordinary way India's demand would continue for some time after the shortage of gold was actually felt.

13,377. That possibility is based on the actual experience of the past?—Yes. As I point out, the increase in the rate of addition to the stock of gold money became sensibly less after 1918. That would result after a very considerable lag. Perhaps you will have to wait until 1930 in the ordinary way for the demand for India to decrease, if it follows the experience of the past.

13,378. The Indian demand cannot be counted upon to tell at once?—I think not.

13,379. In paragraph 7 you say that the requirements of the industrial arts up to the war continuously expanded, with the exception of one period?—In 1894 the industrial arts absorbed about £11,000,000, and in 1913—19 years later—£27,000,000. That is the highest figure. Since then the demand has been very sensibly less because of the effect of the war, which has especially affected countries outside the United States, and I take the present consumption for industrial arts at about £16,000,000 only. From now on I would expect that to increase, and I would look to the past rate of increase as a measure of what that increase may be; but, for the purpose of this statement, where I have tried to restrain myself as far as possible, I have put the demand for the next five years at £18,000,000 a year.

13,380. £18,000,000 for the immediate quinquennial period, and £22,000,000 for the following five years?—Yes.

13,381. Do those appear to you to be well within what is reasonable to allow?—Yes. If, for instance, the world were to be normal in the five years to 1934, and if it then took at the 1913 rate, it would be £135,000,000 instead of £110,000,000 for the five years.

13,382. I observe you have taken an inside figure there, and we come to the interesting point raised as to the position of China. You say that "there are indications that China's preference later on will be for gold, which would be in the natural course of events." What was there in your mind as evidence of that?—I was thinking largely of the history of India. It is a case of a poor country becoming richer, and China seems to me to be passing from the copper or bronze stage to the silver stage, and it will in due time pass to the gold stage. The fact that it is so passing is to a certain extent indicated, I think, by my table No. 4. There you will see that the significant figures apply more to the war period, and perhaps should not be regarded too closely; but in the five years to 1919, 61 per cent. of its imports of treasure were in the form of gold, and only 39 per cent. in silver. China has imported gold to the extent of £11,500,000 in a single year recently.

13,383. Taking the figures for the quinquennial period for 1924, to what do you attribute the disgorging of gold from China?—During the previous five years they imported £17,600,000 of gold, which was extraordinary. It is not reflected in the previous figures, and the disgorging may be a natural repercussion. They also showed, during those last five years, an extraordinary preference for silver. Their silver imports were quite extraordinary.

13,384. As regards this question of China, what in your opinion would be the effect upon the demand for gold from China of a marked fall in the price of silver, or any instability of the silver market?—I do not think I have been able to get anything out of the figures with regard to that. In the case of India, if you take Government purchases, of course, the Government always bought silver when the price was highest, but the Indian private demand for silver was always accentuated when the price was low. As far as I remember, I cannot see in the figures of China that that same thing occurred there. In fact, if you compare this table with the Indian table (No. 3) you will see that very often the demand in China was absolutely different from the demand in India—in those five years to 1924, for instance, when they put £61,800,000 into silver as compared with a much smaller figure in the previous five years. India, of course, to a certain extent, had taken its large amount of silver in 1918, while China's biggest year was 1920.

13,385. It is suggested to us that if a shock is administered to silver by India selling silver or ceasing to buy silver, China would tend to switch over from silver to gold as a store of value in currency. Are you able to express any opinion on that?—I am afraid I cannot answer that question. The Chinese figures are altogether exceedingly puzzling. They import large quantities of treasure although their merchandise balance (on published figures) is against them—quite the opposite condition to that obtaining in India.

13,386. Now we come to the summary table in paragraph 8, in which we see that the balance available as money, according to your estimate, for the five years to 1929 will be £175,000,000, and that for the five years to 1934 it will be £125,000,000?—Yes.

13,387. And that the stock of gold money per head will have remained unchanged?—Yes.

13,388. From that you draw the conclusion, quoting your important words in paragraph 9, "that the balance available as money in the 10 years must be expected to be much below the £54,600,000 and £49,400,000 per annum of the two quinquennia to 1914, while the needs of the world will be much larger than then"?—In the subsequent section of this statement I show that the supply of money will be about 45 per cent. of the demand—that is, of the demand at the rate required for keeping up the world's normal economic development. In any case, I think there must be a considerable shortage, whatever view one takes of it.

13,389. Following on the argument from that conclusion, in paragraph 11 you point out that from 1920 there began a period of stationary or falling factors?—Would have, but for the war. As a matter of fact, the war came in to exaggerate all these figures, but my point is that if the war had not taken place you would have had a turning point still at 1920. Prices

would not have gone up so much, and the figures generally would not have been exaggerated on anything like that scale. They would have increased normally from about 1895 to 1920, and from then would have commenced a downward turn, as in the period from 1873 to 1896.

13,390. Your general conclusion is that, in the first place, eliminating the war factors, we should have been, and indeed are, at a period during which expansion is being checked by the inadequacy of the world's gold supply to support expansion?—That is so.

13,391. What is your general opinion as to the difference made to that underlying state of affairs by the war factors? They have tended to retard it, you say. In which direction?—Prices, for instance, have been very much exaggerated owing to the floods of paper money which were sent forth. All the factors practically were exaggerated during the war period, but especially after it, in the period round about 1920. You have always to imagine, I think, all these curves—if you look at the matter in curves—as contending their normal course—that is, the course showing itself from 1896 to 1913—during the war period up to the year 1920, and then either flattening or falling, as the case may be, and to the exaggeration produced by the war being piled on to those curves.

13,392. Then there is a passage which appears to be so central that I think we should take it sentence by sentence. You say that the stationary or falling factors will last until such time as the difference between the output and the demand for gold again permitted of a rapid increase in gold money *per capita*. You continue: "This difference can be obtained only in two ways, namely, by increased supply or lessoned demand, or both." The increased supply, you suggest, would have to come from new gold discoveries such as those of California, Australia, or the Rand, as to which, I suppose, it can only be said that no such discoveries are in sight at the moment?—Alluvial discoveries, of course, have been the main factor in the somewhat remote past and in the middle of the last century in very considerably increasing the gold supply, but the day of alluvial discoveries, I think, is past. Even such a discovery as the Klondyke only meant an increase in the annual gold production at the maximum point of about £5,000,000 per annum, and £5,000,000 on £80,000,000 is comparatively small. The great factor in increasing the gold output in more recent times has been the Rand, and the Rand now supplies half the world's gold. I am connected with the Rand, and that occurrence is entirely exceptionable. I am not too much inclined to exaggerate any downward turn, but I think we have to look for a considerable fall in the output of the Transvaal as time goes on.

13,393. And you do not see anything else to take its place?—No. The Rand was discovered in 1885. The life of a gold mine there might be anything. It might be anything from 15 or 20 years up to 40 or 50 years, but economically we always try to make the life of a mine there about 20 years. If it happens to be 50 years we increase the rate of production in order to bring it down to 20, because that is economically about the best point of life for these properties; and it follows almost from that, that you cannot, for any great distance in the future, expect a big production from the Transvaal except from new producers, and the number of new producers has been particularly small at any time during the last 10 years. We used to have several new producers coming in every year. Now it is a case of a new producer once in every two or three years; and that rate will decrease as time goes on, so far as one can see at present, because no new discoveries are being made.

13,394. Turning to the other side, to the decreased demand, and the possibilities as regards industrial arts, on the one hand, and India and China, on the other, you express the opinion that the industrial arts as time goes on, and with a normal world, are likely to exact a much greater toll?—Yes, although in my figures I actually take a figure below the pre-war rate.

13,395. You have taken the £22,000,000 instead of the £27,000,000 as the peak of the pre-war demand?—Yes.

13,396. You point out that the Indian demand was growing rapidly, and, though we may be in a period during which there will be an immediate falling off in consequence of the big imports in the last two years into India, there is no reason to expect that that will not be replaced by a restoration of the normal demand?—In the figures here I really take less for India for the five years to 1934 than I do for the previous five years. My average rate is £22,000,000 a year instead of £24,000,000. I have in mind there, of course, the extraordinary imports of the first year of the first period, and I practically allow for no increase in the rate after 1925. I have an even rate there, but, of course, I have no special knowledge of India. I simply look at the figures as a student of statistics and draw conclusions.

13,397. You have allowed in your two quinquennial periods a figure for the Indian demand which is on the low side rather than on the high, according to the evidence of the figures?—Possibly. I do not know if I can refer to a previous forecast of mine. For the five years to 1924, in another connection altogether, I estimated that India would take, I think it was, £60,000,000, and she actually took £103,000,000. That is only an indication as to the difference there may be between forecast and ascertained fact. Of course, it may equally be the other way round. I think, on the whole, my figure is as fair as I can make it by studying the figures. If it should be a third more or a third less I should not be at all surprised.

13,398. A third?—Of the £110,000,000 for the five years to 1934. What I feel is this. When I have ventured to make forecasts before I have nearly always come out fairly close to the end figure—on India, China and the industrial arts taken together. On the individual figures I have been very much out, but very often these over-estimates and under-estimates tend to cancel out and produce an end result which is very near to the truth. I think, on the whole, the total demand of the five years to 1934 is likely to be at least £235,000,000, and that, even if India falls considerably short of my figure.

13,399. Then in your last paragraph you deal with the question of the gold required for reserves in the central banking system of the world. What basis have you proceeded upon there in making your general estimates?—Are you referring to paragraph 12?

13,400. Yes, "with a world working on the gold standard as before the war"?—I would point out that my remarks are based very largely upon the pre-war point of view, and I am unable to assess how far the variation in the gold standard which is taking place all over the world and the centralising of reserves may affect the figures, or may affect the general conclusion. I have not gone into the question of the effect of centralising gold money. In fact, I say, "how far these efforts will tend to increase the influence of a proportionately reduced amount of gold money remains to be seen." I have not got any information upon that. I have not worked on that particular point.

13,401. You are taking things as they are. You are assuming the present state of affairs as regards the amount of gold required for banking reserves, and so on?—I am taking the figures as I expect them actually to be during the 10 years, making the best estimate I can, and I am applying to that the pre-war rate of view. When I state later on how much gold is required for the economic development of the world, that is all based upon pre-war experience necessarily. Gold will go further now; it is more centralised; it is made more efficient; but how far that will actually affect prices I cannot say.

13,402. The view has been expressed that great economy of gold could be effected and ought to be effected by the general reduction of the percentage of metallic gold held by the central banks?—It is absolutely necessary that great economy should be exercised in the use of gold. The position absolutely calls for it.

13,403. The conclusion of your argument is that unless such economy is exercised then there will be a real scarcity of gold?—Yes. You will have a long period of falling prices, reduced prosperity, and a lower standard of living, and everything that goes with it.

13,404. Before leaving this topic, let me refer to one question with regard to the actual Indian position. Supposing that the tendency were to go the other way in India, and that there was to be a big demand for more gold for India: supposing that that demand was to amount to something in the nature of £103,000,000 worth of gold in the course of 10 years. Would you be prepared to express any opinion as to what effect that would have on the general question, as analysed in your memorandum? —The effect would only be to increase the adverse effect of the shortage of gold which I contemplate under normal conditions.

13,405. And would that be a substantial increase or an increase which might be neglected?—It would be a substantial increase. One must not however exaggerate it. It is £103,000,000 against £2,400,000,000. It is a matter of 4 or 5 per cent. You can get it from my figures in paragraph 8. I estimate there the balance available as money for the 10 years to 1934 at £300,000,000. You have got to set the £103,000,000 against that. Then, of course, it becomes a much bigger percentage.

13,406. That is, of the addition during the five years to 1929, which you estimate as £175,000,000?—For five years, yes, or for the 10 years to 1934, £300,000,000, and that is roughly the 10 years you have in view, I think, in the questions which you have put.

13,407. That is so; so that £103,000,000 would be a taking off of about one-third of the total amount which should become additionally available?—Yes, and this total amount, as I say later on, is only 45 per cent. of the world's requirements on the normal scale of economic development.

13,408. In order to keep things going even as they are?—To keep them stable—not to lead to an increase, but merely to keep them stable.

13,409. In the next section you deal with the interesting topic of the increase of gold needed to keep pace with economic development, and you draw attention to Prof. Gustav Cassel's work on "The Theory of Social Economy." I understand the principal difference between your calculations and those of Prof. Cassel is that Prof. Cassel takes the total amount of gold available, and you take the total amount of gold available for monetary purposes?—He takes the total amount of gold supposed to have been produced in the world from remote times, while I take only that portion of that total gold production which I can see has gone into monetary uses. I base it upon the aggregate stock of gold money. He bases it upon the aggregate total production.

13,410. You explain why you consider the second method more preferable?—Yes. I give his argument for preferring the other method, but I cannot follow his argument.

13,411. The first important figure is given in paragraph 14. 1850-1886 and 1886-1910 are the periods to which you refer. There was an average annual rise of 2·79 per cent. in the actual gold supply?—That is Prof. Cassel's figure.

13,412. That suggests that we are going to find that the total increase necessary to keep pace with economic development will be something round about 3 per cent.?—Yes. I arrive at very much the same figure based upon the stock of gold money. There is, however, an important difference in the amounts involved, as I mention later.

13,413. It is Prof. Cassel's conclusion which is quoted in paragraph 15, that "an annual production of 3 per cent. of the supply at any time is a condition for the maintenance of the general price-level unchanged, as far as the gold supply is concerned"? —Yes.

13,414. You point out in paragraph 17 that his conclusions are shared by many economists, and that your conclusions in your Trade Cycles Chart, arrived at by a slightly different method, are practically identical?—Yes.

13,415. Your conclusions, I think, are finally summarised in the table in paragraph 22?—That shows the rate.

13,416. I am not quite sure that that table is perfectly clear to me at first sight. Will you explain it a little?—First of all, I have taken two sets of periods. The table ought to have a double dividing line in the centre; it would make it clearer. I take first of all the period 1851-1907, splitting it up into two portions. I also take the period 1844-1913, splitting that up into two portions. That is, in each case we divide at years where the commodity price index was at the same level, and whether you take the one period or the other the figures are approximately the same: the stock of gold money must increase something like 3 per cent. compound in order to support the rate of economic development, judging by pre-war experience, because these are all pre-war figures.

13,417. What is the significance of the figure of the difference between the increase per cent. of the stock of gold money and the world's population?—Only this. The mere increase in population, which is roughly 1 per cent. per annum—or actually under 1 per cent. per annum—alone requires an increase in the amount of gold money, if things are to remain absolutely stationary and if there is to be no economic development at all; but of course one's demands are increasing all the time, and they increase at a much greater total rate than the increase in population. The population increases 1 per cent., but the demand for gold increases 3 per cent.—three times the rate, which is what one would expect, but there is a tendency, as shown by the figures for the percentage required, to fall with time, as gold money becomes more efficient, and as more credit is built up on it; but, of course, a smaller percentage at a later period means a much bigger amount in actual gold because of the increase in the stock of gold money which is continually taking place.

13,418. Can you refer us to any place in your tables in which one can find, for comparison with this required percentage increase, what your estimate will be of the actual percentage change of the stock of gold money for the same periods, or for either of them—the actuals and estimates as compared with actuals and estimates?—There is the table in paragraph 10. You remember there that I divided up the period since 1807 into periods, and I showed the times when the world's stock of money was increasing at the rate of only ½ per cent.; then at the rate of 4½ per cent. after the Californian and Australian discoveries; then it fell to 1½ per cent.; then it rose to 3½ per cent., and is now about 1½ per cent. In each of those periods, when this stock of gold was increasing at the rate of ½ to 1½ per cent. (which is very much less than this 3 per cent. we have been considering), you have stationary or falling economic factors. Prices fall, trade remains stationary in the aggregate, and so on. Whenever these figures exceed the 3 per cent., then you have rising factors. Say, the figure you were just asking for is the 1·4 per cent.: the present rate of increase in the stock of gold money is about 1½ per cent., while 3 per cent. is required.

13,419. I was looking, for the purposes of ready comparison, to find where you set out in your figures, if anywhere, your estimate as to the future of that present figure of 1½ per cent.?—In the table in

paragraph 10 I throw that figure forward to 1934. I take the period from 1918 to 1934, the 1934 figure being based upon my estimates. The interval of 16 years would on those estimates show an average increase in the stock of gold money of 1·4 per cent.

13,420. So far as it is possible to form a reasonable estimate of the future, we may say that, whereas the requirement is 3 per cent., your estimate of the actual is 1·4 per cent.?—Yes.

13,421. Which, of course, indicates also the necessity for economy?—You will also notice that 1·4 per cent. is the same as the 1·4 per cent. of the period between 1868 to 1891, which controlled factors in the period of 1873 to 1895—the period during which commodity prices were most markedly falling.

13,422. You say in paragraph 26: " Since 1918 the rate of increase in the gold money stock has sensibly decreased, as it did in the period 1861-1891, and this state of affairs seems likely to continue for some years to come, so that, at any rate, for another 10 years to come there should (apart from the war) have been a sensible fall in prices and a decline to a small extent in the average bank rate." As war factors are eliminated by the lapse of time, it is towards that state of affairs that we are likely to revert?—Yes, subject, of course, to any change resulting from the economising of the use of gold. There was a continually increasing economy in the use of gold in the past, before the war, but the efforts that are now being made are extraordinarily greater than those.

13,423. Subject to any alleviation of the conditions by economy in the use of gold, and any aggravation of the conditions by future demands of gold?—In order to prevent a long period of falling prices, stationary trade and so on, you must increase the efficiency of gold or reduce the demand for it for other than monetary purposes.

13,424. In paragraph 27 you say: " It would seem evident from a study of the chart that they (*i.e.*, price index figures) may go a considerable way towards 90 in the next few years "—that is, from the present figure of 145?—I do not know if the Commission has had an opportunity of studying this chart. I am sorry copies were only available this morning.

13,425. We have had it long enough to have got a first impression of it?—With a little imagination that shows the position. If you look at the price of commodities curve, the thin line shows where prices would have been but for the war. As a result of the war they have been high above that line, but they have already come down very considerably, and you can see them pointing to the theoretical line—what we may call the pre-war line. They are going towards that, and eventually would reach it, apart from any exceptionally increased efficiency in the use of gold.

13,426. In short you deduce that the gold factors in the situation point towards a general fall of prices towards the 90 level?—Yes, and a long-continued fall such as we had in the 23 years from 1873.

13,427. You draw the final conclusion that unless there is a great economy in the use of gold the trend of prices must be downward for a long time to come?—Yes.

13,428. In paragraph 29 there are figures which summarise conveniently some of the matters with which we have been dealing. The illuminating figure here, I imagine, is the final column on the table which shows the difference between the actual stock and the increase in the stock required?—Totals which you see go steadily in the wrong direction.

13,429. That is really the comparison I was seeking when I was asking you the question a few moments ago. You expressed it in this way: " During the 10 years 1926-35 an average of £64,000,000 per annum of addition to the gold money stock is required "?—Yes.

13,430. Taking the Indian monetary system as at present, the estimates fall short of this by about 55 per cent.?—Yes. That is adding the last two figures in the two lines of the table together.

13,431. You say, " Unless . . . economy is exercised we have to look forward to a prolonged period of steadily falling commodity prices and to a diminishing degree of prosperity and economic development throughout the civilised world, including India." In your frequent emphasis upon economy, what measures of economy have you in mind?—I suppose the collection of gold in the Central Banks, the avoidance of gold in circulation, and getting as much gold as possible from ordinary consumers—getting ordinary consumers to reduce their demands so as to allow more to be available for money. Money is always in the position that it has got to stand aside until those who demand gold have specified their demands. India and China and the industrial arts all come before money in the call upon the gold production of the world, and it is only what is left which is available for the stock of gold money. The aim should be both to reduce the demand for gold and also to economise in the use of the gold available for money.

13,432. Before we proceed to the question of silver, there are one or two general questions which I would like to put on the outlook. As regards the working cost in the production of gold, that depends on the general price level. In your opinion what would be the effect of the present continuing fall in prices on gold production, and its effect upon the working costs?—It is rather difficult to answer that. On the Rand we have already come down to the pre-war level of costs—about 17s. a ton. In South Africa the price level is not nearly so high as here. We shall get a gradual fall in that ratio of working costs, but I do not think there is very much room for fall. We might get down to 15s. in the course of five or 10 years.

13,433. Would that be enough to make a substantial difference in the supply?—It would tend to arrest the decline. In my mind the decline is bound to be there; the only question is how rapid it is going to be. It would tend to check that decline to some extent the more costs fell.

13,434. It would not be of such an order as to make any substantial change in your view of the whole situation?—I have allowed for that as far as I can in making my estimates.

13,435. That is the important point, that it has been allowed for. Do you attach any importance to the view that if prices are going to fall in future, industrial consumption of gold will decrease rather than increase?—If prices were to fall I should expect the industrial consumption of gold to become stationary. If you look at my Table 1 under the heading of " Industrial," you will see there that the industrial demand was about stationary until the time of the Californian and Australian discoveries of gold—that is, until prices started their big rise. Then from about 1851 prices started rising strongly, and continued so till 1873. During that time you will see that the industrial demand for gold increased from about £15,000,000 to three or four times that amount. Then from 1873 to 1896 we had the long period of falling prices due to the steadying down of the stock of gold money, and you will see that that big rise in industrial demand is absolutely checked right to 1895. Then onwards from 1895, when the stock of gold started rising again very strongly, and prices also were rising as a consequence, the demand for industrial purposes increased heavily; so that if we were to have a long period of falling prices it would certainly have a tendency to check the industrial demand.

13,436. That no doubt has been taken into consideration in your estimate of the future industrial demand?—As far as possible, yes. I have already pointed out that my estimate of the industrial demand is taken at less than pre-war level.

13,437. Do you think you have given full weight to the possible check to industrial demand for the period of falling prices which you foresee?—You

follow that these figures of the past do not show any falling off in the industrial demand, or any appreciable falling off. It simply shows that for a time it became steady.

13,438. It did not go ahead?—It did not go ahead.

13,439. In the adverse periods?—No.

13,440. Then we come to silver?—May I just refer to paragraph 30? You ask in the questionnaire for an estimate of the increment in the stock of gold for monetary purposes needed to keep pace with the economic progress of (*a*) Great Britain and (*b*) the rest of the world. I only want to emphasise that I draw no dividing line between Great Britain and the rest of the world. What affects one will affect the other. British prices are world prices and world prices are British prices, and the same thing would apply very largely to India.

13,441. I apprehend that in your analysis of the silver position you are laying emphasis on the difference between conditions of production of silver and gold amongst the most important of which we find that silver is largely won with other metals and as a by-product?—Yes. I draw some rather striking parallels between the occurrence of silver and gold which rather brings that out.

13,442. In paragraph 34 you say, "The estimate now made indicates that to the extent of about two-thirds of the output silver is not won for its sake alone, but either as a by-product or in conjunction with gold. That is, 56 per cent. *plus* 7 per cent., or 63 per cent. altogether, comes from what you describe as gold ores or base metal ores?—Yes.

13,443. And 37 per cent. only from silver ores? From that you draw the conclusion that, generally speaking, high output is consistent with low prices, and low output with high prices? Owing to the production of silver as a by-product, as long as something is obtained for the silver, a fall in the price does not make it unremunerative to bring silver on to the market?—It so happened that when the price of silver was going down most rapidly the production of silver was increasing at the greatest rate. At the former Commission, Professors Carpenter and Cullis said that the great decrease in the price of silver from 1873 onwards was due to the increased production of the metal; but I think most of the members of this Commission will understand that it was probably due to very different causes—the virtual demonetisation of silver by Germany in 1871, the adoption of the gold standard by various countries which followed almost immediately, and later on the closing of the Indian mints in 1893.

13,444. That is stated in paragraph 38, where you point out, "The object of the present remarks is to indicate that in the past the output has been largely—in the aggregate and over long periods—independent of price, and that a considerable increase in production may occur in spite of falling prices, and *vice versa*."—The production can increase very considerably, even if the price is falling. That is what the past has shown.

13,445. And you say that a further reduction in price, unless exceptionally severe, would not necessarily have any but a gradual effect on production, or at least that the effect would be considerably less than might be expected?—Yes. There would be a considerable lag. It would have its effect, but I think one could easily exaggerate what that effect would be.

13,446. This is of course a conclusion to be applied practically to the problem as to the effects of sales of silver by India under some conceivable change in currency policy?—Yes.

13,447. With the effect of that I will deal more closely in connection with the succeeding part of your memorandum. In the next part you deal with the general relation between the demand for and the supply of silver, and you give a summary of your future estimate in paragraph 46. You give a total expected annual consumption for the 10 years 1926-1935 of 230 to 300 million ounces?—Yes, and the expected production is in the preceding table.

13,448. The expected production of the same period you give as 260 to 300 million. In other words, the expected production is equal to, if not slightly in excess of, the expected consumption?—Practically the same. That is quite an accidental conclusion. I did not try to work the figures towards each other. They happened to come out so.

13,449. I was wondering if that was so?—It is a fact that the demand must, in the end, be equal to the supply. That is an economic fact; but it so happened that I attacked this question of consumption and production independently, and they happened to arrive at more or less the same figure.

13,450. When you say that the demand must, in the event, be equal to the supply, you mean there are sufficient possibilities of expansion in the world's demand for silver to provide an outlet?—No, I do not mean that exactly, but that there will always be a demand at a price. If the production of silver were to go up 50 per cent. the excess would be absorbed at a price, but the price would suffer, of course. In the same way if the production were to fall to half of what it is people who consume silver would necessarily have to consume less and pay more for what they consume.

13,451. In following the figures of demand and supply, I received the impression that it was a picture of what you might call a weak market—that is, a supply which is equal to, if not in excess of, the demand?—I should rather be inclined to think the contrary, if anything. As I said in connection with my figures for gold, I think that this consumption can easily be bigger than these figures, especially for coinage. I do not know if I have allowed sufficient for coinage. I should expect in practice the coinage figures to be bigger than those I have put down here. Take China, for instance. I have put down 30,000,000 to 50,000,000 ounces a year, but on published figures China was coining about 100,000,000 ounces a year in 1922 and 1923.

13,452. The figures do not indicate falling prices in the silver market?—Not in themselves. They would be affected, of course, by the general fall in the price level. If there is to be a general fall in the price level there should be a general fall in the price of silver.

13,453. Silver would follow the other commodity markets?—Yes. Silver always goes up and down with anything else, *i.e.*, the trade cycle movements or annual variations are similar. The trend, however, is different in the case of silver from what it is in the case of base metals and commodity prices.

13,454. As regards the silver market itself, you are of opinion that the prospect of a substantial difference between supply and demand indicates rather a stiffening of prices in the silver market?—Yes, but, as I say, the fall in the general price level has to be remembered.

13,455. It would be subject to general influences?—If the price level were to remain the same for commodities in general, these figures would indicate not lower prices of silver, but if the demand were bigger than anticipated, as is more likely than the reverse, I would expect the price to stiffen.

13,456. I do not think it can be better summarised than in your words in paragraph 50, where you point out: "Thus supplies would be increased by 13 per cent., but in order to absorb them those who have the choice of buying would (unless silver were to cease to be a marketable commodity) be compelled to increase their takings by an average of 38 per cent." Will you explain that a little further?—I am taking my previous estimate as to what the output of silver is like to be over the next 10 years—that it will increase to a matter of 280,000,000. The figures are the same as those I have previously taken. Then I am assuming that in the case of a selling of these 70,000,000 fine ounces annually by India there will also cease to be a demand for Indian coinage which I have previously estimated at 30,000,000 ounces a year. I do not know if that is correct, but I think

it necessarily follows. So I assume that demand falls away entirely, and that the coinage of the rest of the world would not be affected at all by any change in the price of silver. It would be affected perhaps to a very slight extent, but I do not think it would be appreciably affected. Countries are not very likely to increase their silver coinage merely because they can get silver cheaper. So that the whole of the demand would be drawn upon India's private imports, China and the industrial arts, and in order to make up the gap caused by the action of the Indian Government, if it took place in that way, they would have to increase their demand by an average of about 40 per cent. in order to absorb that amount. That increase, of course, is a very big one. I have no doubt it would take place; but it would take place at a price.

13,457. You say: "This would mean a profound change in the position and it could not be affected suddenly and must take time. The more quickly it were applied the wider would be the variations in the price of silver and the effect on production." In speaking of the general future of the silver market you describe the prospect as one of firmness of prices?—If the general price level rema ns the same.

13,458. Could you explain what would be the general effect upon the silver market of these sales, as regards the actual effect upon prices? You deal with it in paragraph 54, do you not?—In paragraphs 53 and 54. You see there I say that for the years from 1902 to 1913 there was a steadily rising curve of the money amount which the world was prepared to pay for silver production, and that if that line were continued to 1930 and 1935 it would show prices for each of those years of 35d. per fine ounce. I do not believe that is the position, of course. The war has changed many things, and I am ignoring entirely the war period. I say that if this line were extended we shouild arrive at a price of 35d. per fine ounce at 1930 and 1935. But if Indian private demands and China's demands and industrial arts were asked to take this additional amount, I am assuming they would pay the same total value for the enlarger amount that they would pay for the ordinary amount otherwise. That alone would decrease the 35d. per fine ounce to 25d. Then I go on to say that I do not believe that that fall would be restricted to 25d. owing to the various qualifications I have set out—the five points which I have set down in paragraph 54.

13,459. What you call the five additional points?—Yes. They greatly qualify the position.

13,460. I think it has been suggested that the result of the sale of these 70,000,000 ounces a year would be to reduce the price of silver to 24d.?—Of course you gather from this that I think the fall would not stop at anything like 24d.

13,461. You do not find it possible to say where it would stop?—I do not want to predict.

13,462. Only you would not build anything on the 24d.?—That is so.

13,463. You say in point 5: "Much would depend not merely on the Government's action as regards silver, but also on its policy as regards gold. If that were in the direction of introducing a gold currency it would largely augment the already excessive demand for a metal that threatens to be in increasingly short supply, and the prolonged fall in prices generally, which from other considerations has been assumed, would be considerably accentuated. This would, of course, have its effect on the price of silver." That is a general reservation which you have already made?—Yes; except that that downward line from 1924 which I have been suggesting would become still more downward—the downward movement would be accentuated.

13,464. This point has been put to us in evidence, and I should like to put it to you. It has been stated that silver follows general commodity prices, and as general commodity prices are about 50 per cent. more than they were, the price of silver is likely to go up to above 40d. The argument is that silver is now for some reason or other, which is perhaps not explained, below what you would expect to find it in view of the general rise of commodity prices since the war. What weight do you give to that observation based upon the relation between the price of silver and general commodity prices?—Well, I think my table in paragraph 51 throws some light on that. I there show that the price of silver does not follow the ordinary rules. In the case of base metals the prices have gone up in a marked degree, while the price of silver, although the output has not increased to anything like the same extent as that of base metals, has not followed the base metal figures at all. It is possible that silver can go up to that extent, but I should not expect it generally.

13,465. Can you suggest any explanation of why it has not risen to the same extent as other commodities?—No. Of course, silver has had some very hard knocks. It used to be the basis for currency, and it has been knocked out as being the basis for currency. Its uses have been to a large extent curtailed in certain directions, at any rate.

13,466. That factor is a continuing factor?—Yes. I do not know if this has anything to do with it, but it is also a luxury metal rather than a necessity as in the case of the base metals, although so far as that is concerned you would expect in times of prosperity the price would go up quite as much as in the case of the others.

13,467. In that connection it has been suggested to us that there is likely to be an increased demand for silver for coinage among the nations of the world. Have you any view on that?—That is very, very possible. I think I mentioned before that I have taken what I consider modest figures for coinage, and it is in coinage that I would expect the demand to be a good deal bigger.

13,468. You took the case of China?—I have some figures here for 1921, 1922, 1923, and 1924, showing the amounts of silver used in world coinage. I have the figures for net coinage. The United States Mint's table for the world for net coinage was 97,000,000 ounces in 1921, 165,000,000 ounces in 1922, 157,000,000 ounces in 1923, and 103,000,000 ounces (which is an incomplete figure) in 1924. But that includes India and China. China comes in in the two middle years for 99,000,000 and 94,000,000 ounces. Excluding India and China the absorption of the world for net coinage was 63,000,000 fine ounces in 1921, 71,000,000 ounces in 1922, 66,000,000 ounces in 1923, and 90,000,000 ounces (which is an incomplete figure) in 1924. That is during the period when the United Kingdom, having debased silver from the basis of 92½ per cent. to 50 per cent. fine, was actually turning out silver at a considerable rate—at a rate of 15,000,000 to 20,000,000 ounces a year on balance. You find in 1924 Germany came in and took 21,000,000 ounces. Russia came in in 1923, taking 9,000,000 ounces in that year, and 12,000,000 ounces in the following year. You have Austria coming in with 5,000,000 ounces in 1924, and so you see the Continent beginning to wake up and absorb silver for coinage purposes. Of course, on the Continent during the war and particularly afterwards, an immense amount of silver was turned out. Silver coins virtually became demonetised, partly by the people themselves and partly by the Governments. That has left a vacuum that has to be filled. I have not figured out the amount of filling required, but it is quite possible that there may be during the next few years, as Europe gets on its feet, a very considerable demand for silver for coinage purposes.

13,469. Are there not big reserves of silver to meet this demand and fill this gap held here or there?—There are very big reserves in India, but whether they will come out or not I do not know. I believe during the war in the case of one hoard in India a very big amount came out—I am afraid to mention the figure—where one of the ruling princes turned out many, many tons of silver which came to this

country; but in general, of course, the silver does not come out of India, but it continually goes in.

13,470. Are you aware of any big holdings of silver anywhere else which are demobilised at present?—No; there is the United States holding of silver, but they got rid of that for a time by selling it to India. They have now replenished it and intend to keep it.

13,471. I though that there was a lot in Switzerland?—I should not think so.

13,472. Nothing substantial, you think?—No; Switzerland is in fact using very little. Switzerland is using very little for coinage now. It is of the order of about 1,000,000 ounces a year.

13,473. (*Sir Purshotamdas Thakurdas.*) May I ask what you have in your mind when in paragraph 4 you exclude India, China and Egypt in your calculation about the stock of gold money in the world?—Well, I regard them as absorbing or hoarding countries. My world stock of gold money is supposed to represent the amount of gold money which influences prices and conditions generally; but in the case of India there is no effective gold money now.

13,474. But the gold bullion which Indians are supposed to hoard is capable of coming out whenever the demand for it is such as to make those who hoard it want to release it?—But it never comes out.

13,475. You go on the basis that it is for all practical purposes dead?—Yes.

13,476. If it came out would it then affect the basis of the calculation you have made?—Yes; and so in the caso of silver if silver came out; but in practice it never comes out. I believe if you go back the last 60 years there were only two or three years—in fact, I mention them somewhere here—in which India turned out any gold at all, and it immediately reimported much more.

13,477. But if it happened that the gold bullion which was being hoarded by Indians was used for purposes of currency, that is, if they took it to the Mint for conversion into gold money, it would affect the calculation which you have so fully put before the Commission?—Yes.

13,478. Gold ornaments are known to have been sold whenever the person owning them is in difficulties. In such cases the ornaments are taken from the ladies of the family and are either mortgaged or sold—say, in the case of a merchant who is in difficulties. How would you regard that? Would you regard that as use of gold for the purposes of gold money in the world?—No; because I take it it passes into other hands which are in effect hoarders in my sense. Perhaps the word " hoarding " is not the right word, but rather " absorption ". It is absorbed from the world. It is no use as money, surely.

13,479. It is of no use as money because there is no gold currency. If there were gold currency a man would take the bullion to the Mint and say: " Mint this ", and then it adds to the money in circulation, does not it?—If you assume that. I was going to say that there is supposed to be gold currency in India.

13,480. Not since 1920?—But in fact.

13,481. (*Chairman.*) The sovereign is legal tender?—It is still legal tender, and there are still gold mohurs in existence, but they are hoarded.

13,482. (*Sir Purshotamdas Thakurdas.*) The sovereign is not effectively legal tender because one can only get 10 rupees for it from the Government under the existing statute. Since 1920 the sovereign is out of it as legal tender, if I may say so. The policy adopted for India has been such that gold must lie in India as a commodity, that is, something which is dead for currency purposes. If that were not so, and the sovereign were legal tender, say, for 15 rupees or 13 rupees and odd annas, then a man holding gold bullion, if he felt that property or commodities were going cheap, would take his gold to the Mint and say: " Give me coin for it." Would not that be so?—I am afraid I cannot answer that question.

13,483. If gold was legal tender in an effective manner, gold bullion which is supposed to be hoarded by Indians would not be cut out of the stock of gold money in the world?—I am afraid it would in my figures, because I make them up in my way. It is a convenient way of getting at the stock of gold money in the world—to regard all the gold in India as hoarded. So I do it for that purpose. In practice, of course, it may be that some of that gold will get into circulation in India.

13,484. If you agree with me that in practice it is possible that some of that stock of gold may get into circulation, then the calculation on which you go would be seriously affected?—Well?

13,485. You cut out of the stock of gold money in the world all the gold which has gone to India, China and Egypt?—Yes.

13,486. If it is taken for a period of 200 years, or whatever it is that your calculations are based on, it would make a substantial difference?—Yes; but I could hardly imagine that all the gold which has gone into India, or any appreciable proportion of it, would ever come into use as money. It would make a difference, but I should not think a serious difference.

13,487. May I assume that you take it for granted that gold which goes into India never comes into effective monetary use?—I do not think it does. I do not think it affects prices.

13,488. If I hold gold worth, say 100,000 rupees in bullion, and at a period when I happen to have suffered a loss in business, or when I want to expand my business I take that gold out of my hoard and borrow on it, do you consider that as my putting the gold to use as gold money?—No; that would be using it as a commodity.

13,489. If I sold it?—Yes; I presume the person who buys it from you would also use it as a commodity, and not as gold money.

13,490. Why do you necessarily take that view—because you take it that all the gold which goes into India is used as a commodity only?—Yes.

13,491. So that your presumption is that all gold which goes into India is used as nothing but a commodity, and is incapable of use for the purposes of currency?—Yes; and I understood you to say that that was so. I understood you to say that gold does not circulate.

13,492. It has been so since 1920. There is no question about it, and I do not think any of my colleagues would disagree with me there. Then in that case one may come to the conclusion that you would like some scheme to be devised by which this quantity of gold which went to India was capable of being used as money, namely, for the purposes of gold circulation?—I suppose so. As I said before, the object is to reduce the demand for gold as a commodity, and to divert it to monetary purposes.

13,493. And anything which aimed at that object or effectively served that idea is what the world needs most at present?—Well, I do not know. It would depend what use you would make of the gold when you turned it into money. If, for instance, you were to institute a gold currency, I do not think that would be making good use of the gold.

13,494. It would not be the best use of the gold, if the gold coins were very widely used?—If they were to circulate at all.

13,495. Even to the smallest extent?—Yes. Of course, if they are only in circulation to a very small extent, then it does not affect the whole question very much; but gold is far more efficient when it is in a reserve, for instance, than if it is in the hands of the public.

13,496. Gold in reserve, and a small quantity in circulation, if it tended to bring out the gold from hoards, would meet with the world requirements, that you have in view?—Whether it would meet the requirements I do not know. The requirements of the world are pretty big. It would go towards meeting them.

13,497. It would meet the requirements of the world to a certain extent—to the extent that gold which is at present held as a commodity in India

would begin to move and come into effective use as money?—Well, I do not know if the hoards would be called out. I do not know if they would.

13,498. If the effect were to move the hoards, you would approve of it?—Of course.

13,499. In paragraph 5 of your memorandum, you express the view that owing to the large imports of gold into India during the last two years India has over-stocked herself with gold. Do I understand that you think that India has imported more than it needed?—Yes. In the year 1924-25, to March, 1925, the imports were extraordinary. It seems to me that they were more than were called for by the demands of India, and it looks very much as though the importers had over imported—buying gold speculatively, I suppose.

13,500. Has the price of gold anything to do with it? Do you think the lower price of gold in rupees might have been an attraction in that direction?—It might. The possibility of the rupee being fixed at 1s. 4d. instead of 1s. 6d. might have been an attraction.

13,501. 1s. 4d. would have made the gold dearer in rupees, would it not?—Would it? Perhaps I have got it wrong.

13,502. At 1s. 4d. the gold would have cost India something in the neighbourhood of 24 rupees per tola. The tola is the standard weight for gold. At 1s. 6d. it would be 21 rupees odd annas and pies per tola. Therefore, at 1s. 6d. the price to India in rupees was more attractive than at 1s. 4d.?—I do not quite follow you. At 1s. 6d. the price is 21 rupees per tola, and at 1s. 4d. it is 24 rupees.

13,503. Yes?—All I had in my mind was that the man who had bought at 21 rupees per tola, if the basis were changed to 1s. 4d., could sell at 24 rupees per tola.

13,504. Exactly; and then more gold would come out of the hoards?—The speculator would be able to sell his over-stocked gold at a profit in rupees.

13,505. At present the speculator holds it in the form of a commodity in his hoard?—Yes. I am only saying that there has been an over-stocking—I only assume that, you know?

13,506. I am going on that assumption.—The figure looks too big to be the result of what one may call the normal demand.

13,507. It is the largest quantity that India has imported in any year?—Yes. I tried to explain the falling off in the succeeding year—which is a falling off from £50,000,000 to £25,000,000—on the assumption that in the year to March, 1925 India took too much and in the following year possibly took too little because of that. The figure is £50,000,000 in the one year and £25,000,000 I assume for the year now ending.

13,508. Have you got the actual figures for the last nine months?—I have taken the actual figures to December, and made estimates for the rest. I have a certain amount of knowledge in making these estimates, because I am connected with a Committee which supervises the selling of half the world's output.

13,509. May I ask you with regard to the table in paragraph 22 if you can explain to me the significance of the periods into which you have divided the two tables?—There is no significance in it at all. I only had to take the periods when prices were at the same level. It is a case of drawing a horizontal line through the price curve and seeing where it cuts the curve, and that horizontal line you can cut at any level. But in practice if you look at my chart, you will see you cannot vary the line very much, or you cannot get similar prices over a very long range of years. I wanted to get the longest range possible, just as Professor Cassel did. Taking the price of commodities, you see the horizontal line is very little below the figure for 1913. You have only to raise it half an inch on this scale and you get no comparison at all after about 1880. There is no particular virtue in those years I have taken; but one has to take them where one can get them over a very long range of years. I give two sets of figures (of course they differ) just to shew that there is a certain amount of similarity between them. In the chart I only apply one set of figures—the first set.

13,510. Referring to what you say in paragraph 29, I think you said in reply to the Chairman that what you had in your mind there was economy in the direction of more gold for the reserves and less gold for currency and for industrial use.—I do not think I am a competent witness on these questions of currency.

13,510A. I am going on the answer that you gave to the Chairman. In that paragraph you say: "Unless that economy is exercised"—that is economy of gold—"we have to look forward to a long period of steadily falling commodity prices." You desire economy in gold in the direction of less use of gold in currency and for industrial purposes, and more accumulation of gold in the reserves of the Central Banks?—Well, it only strikes me that in the reserves in the Central Banks it is more efficient than if it is in circulation; but I am thinking less of that here than of a lessened demand for industrial arts and India for private hoarding, so as to leave more for addition to the world stock of gold money.

13,511. In the light in which the problem strikes one after perusing your very full memorandum and the tables attached to it, it would appear as if there is likely to be a scarcity of gold after 10 or 15 years, unless some new gold mines are discovered. It strikes me that although for the purpose of remedying this the various major or important countries concerned with the gold standard have resolved not to put gold into currency, yet Holland on the 1st April, 1925, the same date England went to the gold standard, actually put out gold currency. Is that so?—I believe so. Switzerland had previously withheld gold from its public for a long time; and then came the time when they wanted to put gold into circulation. I am under the impression that their banks forced upon the public in return for notes presented a matter of £5,000,000 or £6,000,000, and that within a few weeks they had returned to them some £6,000,00 or £7,000,000. In other words, the public did not want to have gold in circulation; and the fact that gold was put into circulation gave them such confidence that their hoards partly came out.

13,512. I was wondering whether this action of the Netherlands Bank in Holland of declaring that gold would be available for circulation on the same day as the Bank of England declared the pound sterling was at the gold point, had any significance in the sense that the European Powers were not quite combined or were not working in unity towards the aim and ideal of utmost economy in gold?—Well, there is no actual combination between the European Powers. Professor Cassel has pointed out that the necessity for economy in gold is so great that the countries should get together and decide upon a policy.

13,513. I thought it was said they were doing that by resolutions of the Genoa Conference?—It was recommended there, but I do not think it has ever been carried out, or at any rate only in an informal manner. Professor Cassel, who I believe is to give evidence before you, I have no doubt will advocate that there should be combination and joint action.

13,514. But it has not yet come to any practical steps being taken in that direction?—Well, I am not informed, but I do not know that it has.

13,515. Judging from what happened in Switzerland when they put out the gold currency, is there any reason to doubt that the same thing may not happen in India, namely, that with gold being put in circulation people's confidence may be inspired to such an extent that it may help gold to come out of the hoards?—I should imagine that the hoarding in Switzerland is of a very different kind to the hoarding in India. As a matter of fact gold has been put into circulation in India in the past. I do not know what the result has been.

13,516. Not much as a token?—But has not it been put in circulation to the extent of £20,000,000 or so?

13,517. And it has kept in circulation more or less. I have not heard of much gold coin having been held back and put into hoards. That is a matter about which I was wondering whether you would give us any figures. I do not know of any figures which show that a good deal of gold in circulation disappeared and went into hoards.—It would at least be a very big speculation to put gold in circulation in the hope that gold would come out of the hoards in India.

13,518. Why do you think there should be a difference between how gold currency affected people in Switzerland and how it would affect people in India?—In India it is an age-long habit. In Switzerland it was the habit of a year or so. After they had held the hoards for a few years, they turned them out at a convenient opportunity. In this particular country we had hoarding at the beginning of the war; but that hoarding after a while to a large extent ceased.

13,519. The age-long habit in India may have as its basis that since 1830, at least, gold currency has not been available to the people at all.—You know better than I, but it has from time to time, has not it? Gold mohurs have on two or three occasions been minted.

13,520. After 1900 once—a very small quantity?—Yes.

13,521. Then they found that the gold came back perhaps because the period immediately followed one of the most severe famines that we have known. 1900 was a very bad year, I think I may say.—Yes. Of course it does not follow, but this is my impression. It is a matter I am not familiar with, but I imagine if you were to coin gold and put it into circulation in India the effect would not be that it would call out the hoards, but that that the gold itself would go into the hoards. It would cease to circulate.

13,522. I was wondering if you could tell us what this assumption of yours is based on—is it simply on this, that in India people have hoarded gold for years now?—Yes.

13,523. You do not think that that would have any relation to the fact that they did not have any gold currency available to them ever since 1835 or 1830? Since the rupee was coined, I understand except for short intervals gold currency was absolutely forbidden?—They have had silver available, and yet they have hoarded silver to an extraordinary extent.

13,524. In ornaments?—Yes. I use the word "hoarded" in a general sense. You understand what I mean—absorption.

13,525. Absorption both for ornaments and as bullion?—Yes; bullion, and mainly ornaments, I take it.

13,526. An ornament is a different thing from hoarding bullion. Bullion is practically a commodity. Ornament is a different thing from that—I understand the people of India generally would hoard, as I call it, in the form of ornaments only. When I use the word "hoarding" I include the industrial arts in India. I include ornaments, of course, and it is mainly ornaments, I take it.

13,527. But I assume that you would object more to putting metal in pits or in safes merely as bullion. Hoarding in the form of ornaments is a thing which cannot be helped much. It is a common habit with women, and it will take a great deal to change it.—Probably.

13,528. Just as you see in the West flower vases and other knick-knacks of gold or silver and one does not object to it, or to a gold cigarette case. It is a luxury, but I have not heard anyone object to a gold cigarette case or a gold match box. It is a luxury, and it has to be paid for by those who want to go in for the luxury. I thought that your "hoarding" particularly referred to gold in bullion.—No. I use the word "hoarding" in rather a bad sense, perhaps. I do not quite mean hoarding by it, because, I take it, there is very little real hoarding in India, either of gold or silver.

13,529. If the people of India cannot afford either pearls or diamonds for the decoration of their womenfolk, surely they must have recourse to the cheaper things they can afford, which is either gold or silver?—Yes.

13,530. To that extent it is not a thing that either can be or should be objected to?—No. I should think if most of the gold and silver is used in the form of ornament the chances are you would not be very successful in getting that to come out of its use.

13,531. But it is capable of coming out of its use when the man who possesses it wants to realise it?—Yes. That only applies to a small portion, I take it.

13,532. (*Sir Purshotamdas Thakurdas.*) That is perhaps a matter of information of which I have none.

13,533. (*Sir Reginald Mant.*) I want to be quite clear as to the method of construction of this very interesting chart of yours.—Yes.

13,534. It is explained in paragraph 24 of your memorandum. You have drawn a curve "as much above or below the horizontal base chosen as the stock of gold money is above or below straight lines in certain periods between the years when prices and the bank rate stood at the same level." That means "respectively," does not it? It does not mean that prices stood at the same level as the bank rate?—No.

13,535. It means when prices stood at the same level as prices?—Yes.

13,536. The nine years' average refers to the bank rate only?—Yes.

13,537. I wanted to clear up that point?—I am sorry it is so badly expressed.

13,538. The word "respectively," I think, would make it quite clear. Looking at the chart in the year 1900, the prices line, apparently, returned to the same level as in 1851, according to the chart which I have?—Yes.

13,539. You took the level of 1907. I do not know whether there is any particular reason for that?—Well, the year 1900, you will notice, was a peak. It was not an average year at all. If you take the year 1907 and averaged it with the year before and previously you will find that it comes on to the line.

13,540. You were taking the broader movements, and ignoring the short movements?—Yes; it sometimes is rather misleading to take a single year.

13,541. Quite so. Do you think that silver had no influence on prices in the years preceding 1873, when silver was demobilised on the continent of Europe?—I suppose it had.

13,542. There is rather a close correspondence between the gold line and the prices line during that period. I wondered whether silver had no effect, or whether the effect was on the same lines as gold?—Well, credit was then hardly built upon silver, at any rate, to the extent to which it is on gold. Of course, I know the gold standard came into increasing use as the nineteenth century went on; but before it came into use in any particular countries was there any great amount of money based upon silver as such?

13,543. At any rate the chart bears out your argument?—When the gold standard came in, the use of silver as money probably increased also, but not in the same ratio.

13,544. Your chart does appear to justify you in ignoring silver?—I think so. Of course, the further you go back the less reliance you can place upon these conclusions; but the nearer you get up to the date the better. As I mention here, the attempt to carry back to 1800 the correspondence between the total gold supply and the prices of commodities has met with very indifferent results, and I could not continue that further back.

13,545. It is clear from your chart that up to the outbreak of the war there was a very close correspondence between the supply of gold money and prices. That indicates, does not it, that the credit that could be built on gold was, during that period,

subject to very rigid limitations?—I do not quite follow that. I do show here that the percentage increase in the stock of gold money fell off with time. That is, the gold became more efficient.

13,546. But there was a steady correspondence between the curve of prices and the curve of gold money available?—Yes; but remember that that gold money went up at a different rate, a decreasing rate, first at 3.1 per cent., and then at 2.9 per cent. To that extent gold money became more efficient, apparently.

13,547. To that extent only?—To that extent only. It might temporarily have had much more effect. I am dealing here with the trend and not with the trade cycle movements—not the annual variation.

13,548. But the inference to be drawn seems to be that the amount of gold money available was the determining factor in prices?—Absolutely, I think. I do not know if you happen to be at all familiar with my Trade Cycles Chart which has been published once or twice. There I give the stock of gold money, and I also give abut 12 or 15 different economic factors over a long period. You can see the absolute correspondence between those curves. You can see the influence of the stock of gold money on those curves—at least, I think I can.

13,549. It does bear out, does it not, the suggestion I put to you that the amount of extra money that could bo produced by credit was strictly limited by the gold basis ? What I am leading up to is the difference between pre-war conditions and the war period and post war period, when apparently another factor comes in. The amount of credit or the amount of money is not limited to anything like the same extent by the amount of gold available?—You mean that a great deal more credit is now to be placed on a given amount of gold ?

13,550. It looks like it from the chart and the course of prices.—Yes; gold will become more efficient. I think I mentioned in reply to the Chairman that according to these figures there seems to have been an increased efficiency in the use of gold over the period that I take, and that that rate of increaso has probably advanced considerably since the war.

13,551. You are using efficiency in the sense that the same amount of gold goes a longer way?—Yes.

13,552. It is made greater use of?—Yes. I use here the curve of the world stock of gold money. It ought to be the curve of money in the widest sense, but it is because I have only got the figures for the world stock of money that I use it. One would prefer to use the curve of money in all forms if one could obtain it, but it is unobtainable.

13,553. The point I wish to examine is that up to the time of the war the amount of gold available was the dominant factor in controlling the amount of money available?—It was more of a dominant factor than it has been since, no doubt.

13,554. It seems to me as if another factor has come up. Does it follow from previous experience that the amount of gold available will in the future have the same dominance as it had in the past ? That is the point on which I wish to have your opinion. It may go further, but gold still would be the controlling factor, would it not ?

13,555. That is the question which I raise. I think the world is going back to gold, but it may go back to it on a different and more efficient basis.

13,556. It has been put to us by another witness that in future gold will not be the dominant factor, and that the central banks and financial authorities will be able to control credit to a much greater extent than they did in the past, so that future prices will practically be managed by the authorities in control of credit independently of the supply of gold?—Well, I can hardly imagine it myself.

13,557. You do not expect that to happen?—No, I think the world is going back to gold as the basis of economic factors generally.

13,558. But a larger volume of credit may be built up in the future?—On a given amount of gold.

13,559. Quite so, and that amount of credit may bo varied at will by the authorities creating the credit?—Yes, but they will stiil be subject to certain restrictions, will not they, as in the past ?

13,560. But will they be subject to the same restrictions?—Not to the same restrictions. The movement is all in the direction of increasing the efficiency of gold and increasing the amount of money that you can base upon a given amount of gold.

13,561. My point is not that gold will be more efficient, but that the authorities controlling credit will have a very much wider margin to work on so that gold will not be the same dominant factor that it has been in the past. That is the point that was put to us.—I can only imagine gold as still being the basis but the superstructure may be biggor.

13,562. And moro variable?—Possibly and more variable.

13,563. So that you will not in future be able to correlate prices so closely to the amount of gold money available because you will have this other variable factor of the credit structure?—Yes, not so closely. Still I think that from gold money alone you will still be able to see the curve of the other factors.

13,564. So that you expect this curve will more or less continue to correspond with the gold curve but at a higher level?—Yes, for instance, this line I give for prices of commodities owing to the changed basis of credit and money would not come down so much; it might even run along horizontally.

13,565. At a permanently higher level?—Yes.

13,566. Turning to your estimate of the effect of the proposal to sell off silver from India, which is shown in the table in paragraph 50, you show that in order to absorb the surplus supplies of silver the demand from India for private imports and from China and industrial arts will have to be increased by 38 per cent.?—Yes.

13,567. If one followed that out mathematically it would mean a reduction of the price of silver by about 27½ per cent.?—From 35d. to 25d.

13,568. Assuming, as you do, that these countries would cnly spend the same sum and get 38 per cent. more silver for it, that would mean, I think, a reduction of about 27½ per cent. in the price of silver?—Yes.

13,569. Which would reduce your assumed price of 35d. per fine ounce to . . . . . ?—To 25·3d. I mentioned that somewhere.

13,570. The increased demand would hardly operate at once?—No.

13,571. The extra 38 per cent. would be absorbed in the course of time, but at the outset when you had got the extra 38 per cent. of silver on the market you would expect a far larger drop in price than 27½ per cent., woud you not?—Yes.

13,572. At the outset you would expect a very much larger drop in price?—Yes.

13,573. With the prospect of extra supplies continuing for ten years that depression would be likely to persist?—Naturally the psychological effect ought to be very considerable.

13,574. I wanted to make that clear.—I mention " this would mean a profound change in the position and it could not be effected suddenly and must take time." The idea of suddenly putting on the market 70,000,000 ounces is something that is not possible to consider.

13,575. Prices might go down to anything?—" The more quickly it were applied the wilder would be the variations in the price of silver and the effect on production."

13,576. The Chairman asked you about the possibility of the future price of silver. It is a matter of material interest to India in fixing the future ratio of the rupee to gold. We have been

told that with the rupee at 1s. 4d., the melting point of silver would be at about 43d. an ounce, I think?—A standard ounce.

13,577. I think so, and at 1s. 6d. it would be 48d. a standard ounce. It has been represented to us that for the future stability of the currency the ratio must be well above the melting point. I want to ask you whether you consider, taking all possibilities into consideration, that the price of 43d. would be a safe maximum to assume for the future price of silver and whether it would leave us with a sufficiently wide margin?—It is a very low maximum compared to the rest of the world. In this country our figure is 122d. at the present time owing to the rather ill-advised action of two or three years ago. It used to be 66d. China, Russia, and Japan have had very low rates, but apart from that India's rate is very small compared with the rest of the world's already. 60d. and 66d. was the general run of the basis of coining.

13,578. You are comparing with the rupee British silver coin which is practically small change?—Yes.

13,579. It is not quite on the same footing as the rupee?—No, ours are much more token coins.

13,580. The policy in India since the mints were closed has been to maintain a margin between the bullion value and the token value of the rupee but not to have such a large margin as can be maintained in the case of subsidiary coinage in England?—Yes.

13,581. But we do require a margin and I wanted your views as to whether a 1s. 4d. rate, equivalent to a melting point of 43d. per standard ounce, would provide a safe margin?—Well, I cannot imagine silver going up to 43d. At the same time 43d. is rather low as a safety margin. I cannot see at present any possibility of silver going up to 43d. unless this demand for coinage becomes pronounced —by the filling up of the Continental vacuum.

13,582. You have already indicated that that is a possibility which has to be considered?—Yes, that is a possibility. You know the estimators when they estimate the demand for silver and the supply, as is given by one instance I have given in my paper, almost always put the demand at considerably more than the supply.

13,583. The estimates given before the last Currency Commission as to the future prices of silver were very far out?—At the last Currency Commission Professors Carpenter and Cullis stated that for a very considerable time to come the price of silver would not be less than 4s. to 5s. 6d. per ounce. You are well above 43d. there.

13,584. But that estimate has been rather falsified by events?—Yes.

13,585. There may be a risk of going too far in the other direction—in estimating that silver will never rise above 43d. an ounce?—It may be so.

13,586. That is possible?—It may be. I do not know of any subject more difficult than silver to estimate upon.

13,587. (*Sir Henry Strakosch.*) Would you tell us the main sources of your figures?—Do you mean the figures contained in the table?

13,588. Yes. In your statement first dealing with the gold and then with silver?—The main sources I think are given on the tables. The Indian figures are obtained from the Indian trade returns and turned into sterling not at the customary rate, but at the actual exchange rate of the year. The China figures are obtained from the Chinese Imperial Maritime Customs Reports. The figures for Egypt are obtained from the usual official sources. For the industrial arts, the figures are from 1890 to 1913 from the Bureau of the United States Mint. Since then the Bureau has only given incomplete fragmentary figures and I have had to estimate them myself since then. I use their figures as a basis and build up on them.

13,589. And the output figures?—The output figures are nearly always those of the United States Mint—practically all. Where you get very much earlier figures you have to refer to Soetbeer.

13,590. These figures are official figures as one might call them. They are not of your own computation?—No, except this that for the period —it is rather remote now—of round about 1870 I found the United States Mint figures for gold production were incomplete, and I had in that case to check them up and substitute my own. That only applies to those round about 1870, and does not affect the figures in general. The total output of the world since 1493 is as given by the United States Mint and generally speaking you can say all the gold output figures and all the silver output figures are those of the United States Mint, which is recognised as the best authority on that subject. They compile them as far as they can from official returns, but sometimes they have to estimate.

13,591. You told us that the only way of augmenting the stock of gold money in the world would be either through an increase in production or through economy in the use of gold for both monetary and non-monetary purposes, and you told us that so far as you could see there was no immediate prospect of an increased gold supply from new production, and that any new production would not come from alluvial deposits, but from ore deposits?—Yes.

13,592. If a new important gold field were found how long do you think it would take before production could be started? What I have in mind is that in considering the currency question of India we have in particular to see what the course of events will be, during, say the next ten years. Supposing that an important new gold field were found now, would you expect that the increased production would play an important part in the supply of gold money during the next ten years?—No. One can perhaps illustrate it by Canada. In the Porcupine District in Canada they have had important new producers. They have exaggerated about the way in which the Canadian gold output was going up. They claim to have mines that will beat those of the Rand and so on. If one takes the year 1918 the total production of Canada not merely of the Porcupine District but of the whole of Canada, was 3,000,000 ounces. Seven years later it was seven and a half million ounces. That is almost an outstanding case of increase in production through new discoveries. It took them seven years to add four and a half million pounds to the annual output. From the nature of the case when you get away from alluvial sources which sometimes bring in a very sudden effect, and have to deal with lode mining as we have to-day, with company mining and with working on a big scale and so on, it takes many, many years to develop a mine and to bring it to full production. As you know, on the Rand when we open out a new mine nowadays it is a matter of seven years between the putting up of the money to develop the property and the winning of the first gold.

13,593. So that we cannot expect any material increase in the supply of gold during the next ten years even if a new field were found?—I think not.

13,594. Did I understand you to say that you had gained the impression that India had over-bought gold in recent years?—No, 1924-1925 only—in that particular year.

13,595. How do you come to that conclusion. Is it because you are taking the trade figures and find that the balance available for import is deficient?—Yes. I am speaking subject to correction, but in the year ending March 1925, India took £50,000,000 of gold. In the following year it was probably £25,000,000, but the trade balance, the amount out of which they might buy gold, is far bigger in the second year than in the first year. It has gone up considerably. I do not know if anyone here knows the figures, but the trade balance of India for the year ending March, 1926 will be much bigger than for the year ending March 1925, yet the amount of gold they take is halved, and the silver imports are at about the same level. It is largely from that that I assume that the

1924-1925 import of gold was exceptional and was due to what I call over-stocking, anticipating the demand too much, or however you like to put it.

13,596. You were asked to explain whether gold which was brought out of hoards in India would very much change the conclusions to which you have come in this sense. If gold came out of the hoards and were to circulate as money in India, would that in any way mitigate the position which you have pictured in your paper?—If it were to go into circulation or merely come into use as money?

13,597. If it came into use as money?—Yes, it would mitigate the position.

13,598. But, would it, if gold came into circulation in exchange for rupees or notes which are now circulating as money?—You mean in circulation in India?

13,599. That is what I mean.—I do not know that I can judge of that. I can see your point. You mean the amount of money would not be changed; it would simply change its form.

13,600. Perhaps I had better put it in another way. Supposing that gold came out of hoards and went into circulation in India, and functioned as money, replacing, as it would have to, other forms of money, would that alter your conclusions? In other words would it have any effect upon commodity prices?—I do not think so.

13,601. It would not. Therefore, if by any chance the hoards were to come out and were to circulate as money, that would not change your picture at all? —I do not think so.

13,602. You were also asked the question why you had excluded from the stock of gold money all gold that had gone into India. Is it because, from information you have, it did not function as money? —Yes; and because gold, so far as the outside world is concerned, when it goes into India, disappears. It disappears as far as the rest of the world is concerned completely. It has often been said that we dig up gold in South Africa in order that it may be buried in India. That is the practical effect of it.

13,603. Coming to silver, if I understood you correctly you said that the price of silver is also influenced by the general level of commodity prices? Would you say that, if the general level of commodity prices were to fall, the fall due to the peculiar position of the silver market would be accentuated, or, taking the reverse, if commodity prices were to rise and there were special reasons for silver to depreciate, silver would not rise commensurately with commodity prices?—Yes.

13,604. If circumstances arose such as have been described in the memorandum which you have before you, that is if silver had to be sold, and if owing to the scarcity of gold, due possibly to a great absorption of gold in India for currency purposes, commodity prices were to fall, then the two combined factors, I take it you would say, would knock silver to a far lower level than if gold prices remained stationary?—Yes.

13,605. Would you agree that if a gold currency were introduced in India demanding a substantial amount of gold to stock the country with currency, and if at the same time silver had to be sold, the combined effect would probably be disastrous to the price of silver?—Yes; you would have them both working in the same direction.

13,606. Then with reference to the question whether gold continues to be the dominant factor in the creation of credit, some witnesses have told us that it may not be the dominant factor. Would you agree that so long as the important trading countries of the world are on a gold standard, gold is bound to be the basis of credit in those countries? —I cannot imagine anything else.

13,607. So that the lesser demand might only be brought about by a greater measure of concentration of gold within the banking reserves of those countries?—Unless you could reduce the demand of others.

13,608. Unless you can reduce the demand in what respect?—For industrial arts, or for China.

13,609. It is well-known that during the last 25 years a great deal of economy has been effected in the use of gold for money purposes. The cheque system and the banking system have been developed. The system of paying by cheque has been introduced into most countries. That must have had its effect upon the movement of prices during the last 25 years, must it not?—I do not quite follow. The development of the use of cheques means that less gold passes from hand to hand, but it does not necessarily involve the use of less gold. You must have gold as a basis of all that cheque currency.

13,610. But it reduces the demand for gold as currency?—As currency.

13,611. So that if you substitute a cheque currency for a gold currency in circulation, you would be achieving an economy?—Yes.

13,612. That economy has been achieved to some extent during the last 25 years?—Yes.

13,613. So that if that economy had not taken place, your curve would run differently from what it does?—Yes.

13,614. (*Sir Rajendranath Mookerjee.*) In your reply to Sir Henry you said that if any gold mines were discovered you could not expect any production for ten years. Is that just a guess, or based on technical data?—I do not say necessarily for ten years. I was thinking of the Rand where most of the important mines are situated. No new producer on the Rand can come into production until a matter of five or eight years from the time when the property is first exploited, and when the shaft is first sunk. It takes five to eight years to get to the stage of production, and then the production starts on a smaller scale than the full scale intended. In other cases, in cases like Canada, you would have matters coming into production more quickly. On the Rand out gold, in new mines likely to be worked in future, is situated at a very great depth. In the case of Canada you may be able to work from the grass roots, as they say—at a very small depth —but you would probably start on only a small scale and work gradually up to a bigger scale.

13,615. It would depend on the nature of the mine, having regard to the scientific methods of mining employed?—Yes.

13,616. Is that the only reason why you say that you would not be able to get it within ten years? —First of all, for it to take place within ten years you would have to discover it to-day. Supposing it were discovered, not to-day, but in five years' time, it would hardly affect the ten years' period.

13,617. I am not talking of to-day in that sense. The question, as you put it, is that if India introduces a gold currency new discoveries would not affect the gold production of the world for ten years in aid of a possible increased demand owing to India's going to a gold currency. If India goes to a gold currency, then it will involve an increased demand; but if there has been a discovery in the meantime of a large gold field it will operate, according to you, only in ten years' time. What I am putting to you is that that is all guess-work. You cannot conclude that from any arithmetical table or data or anything of the kind—it is all guesswork?—It is based upon a very considerable measure of probability.

13,618. Not on technical facts?—In estimating the future, of course, one cannot know. If you have any estimate of the future put before you, you must weigh it and see whether it is a reasonable estimate. I do not pretend that my estimates are necessarily sacrosanct.

13,619. In paragraph 29 of your memorandum you seem to imply that the rise and fall of commodity prices is essentially dependent upon the supply of gold?—Yes.

13,620. Are not there other factors, such as famine, good harvests, earthquakes, volume of production, etc., which have something to do with

prices?—Yes, famines would affect prices, but only annually—it would be only annual variation. I am not dealing with the ordinary trade cycle movements or annual variations, but with the trend—the fundamental movement—the long period movement, not with the short movement affecting only a year or two.

13,621. It is not only the price of gold which controls the price of commodities, but there are other factors entering into it?—Yes; generally speaking, producing commodities more economically and gradually reducing their prices in that way; but the fundamental movement, the trend of those prices, is determined, I think, by the stock of gold money.

13,622. (*Sir Alexander Murray.*) In compiling these very valuable statistics regarding silver, do your figures take into account the replenishment from the United States market of the Treasury Reserve of silver under the Pittman Act? As you are aware, in 1918 they agreed to sell something like 350,000,000 dollars, and as a matter of fact sold at least over 200,000,000 ozs. Then they had to replenish their reserves?—Yes; they have done so.

13,623. When did they finish replenishing these reserves?—Last year, I think it was.

13,624. How does the cessation of that special demand affect the position?—In 1921, 1922 and 1923 they were coining 50,000,000 to 70,000,000 ozs. (gross) a year, and that was largely the Pittman silver.

13,625. I just wondered if you knew whether they had actually ceased purchasing?—In 1924 they still coined 15,000,000 ozs. and that was still the Pittman silver. I am not quite certain if they have really ceased now, but they stopped purchases—I am speaking subject to correction—I should say a year-and-a-half ago.

13,626. May the cessation of those purchases not set free a lot of silver in future; and may that not have a depressing effect on the market? It is a very substantial quantity that they brought—over 200,000,000 ozs.?—Yes; for a time they acquired the whole of the United States production of 50,000,000 odd ozs. a year.

13,627. That must come on to the market now. If you set free Indian silver also, with the additional American quantity coming on to the market, that is a factor which will help to depress prices. I do not see that you make any reference in your statement to that?—No; I did not think it affected it. The figures of coinage which I gave before, excluding India and China, shew that the amount of coinage in 1921 was 63,000,000 ozs., of which it happened that the whole of it was due to the United States. The rest of the world balanced. The United Kingdom turned out 16,000,000 ozs. of bullion; France 10,000,000 ozs. of bullion; and the rest of the world made up for what these two countries turned out; so that the total of coinage was 63,000,000 ozs., and the United States portion of that total was also 63,000,000.

13,628. You do not specially refer to that in the text of your memorandum?—No.

13,629. You seem to have conveyed to the Chairman, or to some other Member of the Commission, that the future demand for coinage of silver would absorb a lot of silver, and probably act as a sort of set-off against the decline that otherwise might take places in prices; but is it not a fact that in recent years we have had an abnormal demand for the coinage of silver to replace these reserves of America? —Yes; but perhaps I might just refer to these figures a little bit further. If you take the year 1922, the world (excluding India and China) absorbed 71,000,000 ozs. for coinage, of which the United States took 62,000,000. In 1923 the world absorbed 66,000,000 ozs., of which the United States took 49,000,000 ozs. Then in 1924 the United States largely went out of the minting business, and the world absorbed 90,000,000 ozs., of which the United States absorbed 14,000,000 ozs. So that you see although the United States went down, the world went up.

13,630. Mexico came in then rather freely, did they not?—Yes; 10,000,000 ozs. for three years. I think they have stopped now, but for three years to 1921 they had accounted for 10,000,000 ozs. yearly. Then Germany came in. Germany was a great factor in 1924, with 21,000,000 ozs.; and Russia came in with 12,000,000 ozs.

13,631. You think the demand for silver coinage in future will act as a set-off against cessation of the American demand for silver?—I think so.

13,632. (*Mr. Preston.*) You have drawn attention to what you consider to be the normal importation of gold in 1924 and in 1925 into India; and you express the opinion that from now onwards the figures may shew a considerable decrease?—Well, I was trying to explain the fact that the imports in this current fiscal year were only half those in the previous fiscal year. I do not know whether it will continue, but even £25,000,000, which I assume to be the total for the present fiscal year now ending, seems to me a little bit high for India.

13,633. Pixley's drew up a little statement before I came, comparing the import figures of the 1st January to 1st March, 1925, as against the 1st January to 1st March of this year—it is a comparison for two months. It is comparing the first two months of this year up to the 1st March as against the corresponding period last year?—Is that for Indian imports?

13,634. Yes.—But they have not got the figures.

13,635. Yes. These are wired. 1st January to 1st March, 1925, London to India, £5,000,000; Durban to India, £2,607,000, a total of £8,170,000. In addition to those, India bought heavily for shipment from New York. The amount going into India from the U.S.A. during that quarter of 1925 amounted to £10,000,000 sterling; so that that is a total of £18,000,000 sterling. The other figures we have got 1st January to 1st March, 1926, London to India, £1,100,000; Durban to India, £3,500,000; that is only £4,600,000. Then they add a footnote: "We have no figures for the same period in 1926"—that is from America—"but are of opinion that the total shipment if anything is negligible."—That bears out what I said.

13,636. Exactly.—Have you got the figures for the current year?

13,637. These are for this current year.—Do you know for the whole year what they amount to? That is only a quarter.

13,638. We could not do that. I am only comparing them up to date for this year, just to shew the progress which is going on now?—I only think that your figures added to the previous nine months will shew £24,000,000 for the year. Well, I have estimated £25,000,000.

13,639. It just confirms your idea?—Yes.

13,640. If it goes on at this ratio, 1926 would shew a very, very considerable reduction in Indian imports?—Yes. In the first quarter to March, 1925, the importation was quite extraordinary.

13,641. You stated also with regard to silver on your computation of the world's requirements you had included for India for coinage purposes, am I correct in assuming, 30,000,000 ozs. per annum?—Yes, for coinage.

13,642. Then if we take to-day, we have got in India in the Currency Reserves, roughly speaking, 280,000,000 fine ozs. of silver. Even assuming that India does not sell any silver, it is quite obvious she does not want to buy any, carrying a big stock like 280,000,000. Therefore your 30,000,000 would come out of your consumption estimated, would it not?—Possibly, but during the five years to 1924-25 the Government of India imported 3,000,000 ozs.—that is nothing—for coinage, but during the previous five years she imported 467,000,000 ozs.

13,643. That was the Pittman silver?—That included the Pittman silver, but only part was Pittman's silver. Apart from Pittman's silver it was the biggest amount that India had ever taken.

13,644. That is quite right.—We are in a time now when, I take it, rupees are coming in and silver is piling up in Government reserves.

13,645. 280,000,000 fine ounces are in our holding now.—But why should not the tide turn again as it has turned before?

13,646. Assuming we have got a stock of 280,000,000 fine ounces, it would hardly be conceivable to imagine that India would buy for many years for coinage purposes, even assuming that they sell none of their silver?—I am only thinking that taking the years since 1900, I think in half of those years, or nearly half, and sometimes for three or four years at a stretch, the Government bought no silver at all for coinage, but it bought very heavily in the intervening periods.

13,647. That was the war period?—No; even before the war. I can only imagine the same thing happening again. Of course I may be wrong in that, but I take all that into account. I see in the year 1899 the Government imported no silver at all, nor in the year 1902, nor in the years 1908 to 1911.

13,648. There was no coinage then?—But from 1903 to 1907 they imported heavily, and it went up to 78,000,000 ounces.

13,649. That is when our local stock was reduced almost below normal?—What happened in the period 1908 to 1911? Was not silver piled up in that period?

13,650. I have not got the figures for that, but the point I was rather striving to arrive at was this. Assuming, what is the fact, that we have got 280,000,000 ounces of fine silver in India to-day, obviously if we do not sell any of that silver we are not going to buy silver for coinage?—But some of it must still be in the reserves, must not it?

13,651. Yes; but the necessity for coining further rupees is non-existent when you have 280,000,000, and you have 80 crores of rupees in the currency reserves not being used.—That is at the moment.

13,652. At the moment. Then I say the 30,000,000 ounces which you have estimated as being the consumption figure as representing India's requirements for coinage, might certainly for many years come out of that.—Possibly.

13,653. (*Mr. Preston.*) I am taking the ten-year period—the average of ten years.

13,654. (*Chairman.*) In reply to Sir Reginald Mant, I think you agreed that it is not unreasonable to contemplate that there may be a somewhat bigger structure of credit built upon gold in the future than in the past. You point out that in the past there has been an economy of gold effected as shown by your table?—Yes.

13,655. That is brought out in reply to Sir Henry Strakosch, nevertheless, in spite of that economy there is this remarkable correspondence between your line for gold money and the price index. What I want to be clear about is whether any weight was given to this consideration, as to the possibility of increase of supply of bankers' money in relation to gold, in making your estimate of the increase of gold required to keep pace with economy development?—For the first period I say that that increase was 3·1 per cent., and for the second period 2·9 per cent. Then from 1907 right away to the present time and onwards I have taken 2·7 per cent. I only assume a continuance of that rate based on the previous rate of drop. I have not made further allowances beyond that.

13,656. Have you made any allowance for the continuance of the drop in the future?—Only to that extent. I did assume increased economy in the use of gold without considering the post-war conditions.

13,657. You have not thought it necessary to reduce the figure of gold increase below 2·7 per cent. in view of this factor?—As I pointed out in my statement, I am looking at this from the pre-war point of view. I point out that the changed condition of gold will introduce a more profound change, and Professor Cassel himself emphasises that point. For instance, gold in circulation before the war was a very important quantity. To-day it has practically ceased. Gold circulates actually in Mexico. It is supposed to circulate in the United States, but I believe it does not. All that gold that is going out from circulation is a basis for credit. It was not a basis for credit before. That means an economy. Then if you reduce the backing for bank notes, and so on, you lead to a further economy, and you can build up a bigger super-structure on the same foundation but to what extent I do not know if anyone can judge.

13,658. The order of reduction you are dealing with is a reduction from 3·1 per cent. to 2·7 per cent. over this period, in your table?—Yes.

13,659. It is not necessary to make an additional allowance for that. That is the order of reduction which one might, perhaps, be inclined to make for the future?—The curves would be of the same character, but they would change their slope.

13,660. Exactly?—The prices would not come down so rapidly. I only show on this chart what the position would have been if the war had not occurred, and then I show what has occurred as a result of the war, and the future lies between those two points—somewhere between the two points.

13,661. (*Chairman.*) I think that concludes all we have to ask, and I am very much obliged to you for your labours on our behalf. They are very greatly to our advantage.

(*The witness withdrew.*)

# FORTY-FIRST DAY.

## Monday, 29th March, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER }
Mr. A. AYANGAR } (*Secretaries*).

The Right Hon. MONTAGU NORMAN, P.C., D.S.O. (Governor of the Bank of England), and Sir CHARLES ADDIS, K.C.M.G., called and examined.

13,662. (*Chairman*) Mr. Governor: You have been kind enough to assist us this morning on the subject-matter of our enquiry, Sir Charles Addis coming with you as a member of the Court of the Bank of England. Shall I address my questions in the first place to you, or to Sir Charles?—(Mr. Montagu Norman) It might suit our arrangements best if those earlier questions* of which you sent us notice some time ago were answered by Sir Charles, if he would be willing to do so; and your subsequent questions, if that be your pleasure, I will attempt to answer because they arrived after Sir Charles had left London.

13,663. You know best which you would prefer to answer.—We will divide them between Tweedledum and Tweedledee.

13,664. In the first place, I should like to direct your attention to the plan for the establishment in India of the gold standard with gold coins as an internal medium of exchange, for the reduction of the status of the silver rupee to that of a token of limited tender, and for the sale of silver, according to the plan which is set out in the memorandum entitled: "Proposed scheme for a gold standard for India," which I think has been put before you. First, in connection with the proposals relating to gold, assuming that those proposals involve the absorption by India of about £103,000,000 of gold (in addition to normal requirements for the arts, hoards, etc.) of which it is assumed £15,000,000 would be required at the outset, an additional £35,000,000 within a year, and the remainder within ten years; let me ask you what would be the effect of these proposals, in your opinion, in the first place, on the supplies of credit and rates of interest in Great Britain.—(*Sir Charles Addis*) Gold is the basis of credit, and therefore, other things remaining the same, the withdrawal of gold from the base would involve a proportionate reduction in the superstructure of credit. The diminution in the supply of credit, in its turn, would involve a rise in its price—that is, in the rate of interest.

13,665. That is the qualitative nature of the effect. Can you go any further and give any opinion as to the quantitative nature of the effect of such a scheme upon the supply of credit and rates of interest?—I think not, except to observe that, since the reserves are held in this country the effect would first be felt here, and would be proportionately increased quantitatively, even though the ultimate reserve might prove to be the gold in the United States. But further than that, as to the actual increase in the rate, I do not think it is possible to give a reasoned reply.

13,666. I will return to that in connection with a later question which may, perhaps, give an easier method of approach. The next question I put to you with some diffidence. Can you express any opinion as to what would be the effect of these proposals on the position and policy of the Bank of England?—The position of the Bank would, of course, be altered by the export of gold and its reduced reserve. The currency would be contracted by the withdrawal of notes from circulation, and further, a matter which I think is of importance, the proposed amalgamation of the notes of the Bank of England and of the Treasury might have to be indefinitely postponed by the reduction of the gold backing to the combined issues. Then as regards the *policy* of the Bank, that would be deflected by the necessity of replenishing the reserve by attracting gold from abroad. The proper instrument for that purpose is the Bank rate, which would have to be raised sufficiently to provoke an inflow of gold.

13,667. With regard to the circumstances you mentioned of the possibility or necessity for postponement of the amalgamation of the Treasury note and Bank note issue, what would the effect of that be upon the general stability of the currency system and prices? Would it be adverse or beneficial?—I think it would be adverse because it would leave indeterminate the policy of this country with regard to the point at which the general price level is to be fixed. It is the continuance of this period of uncertainty which, in the circumstances of both this country and of India, it is so desirable to shorten so far as it is possible. Anything which would prolong the uncertainty with regard to the future course of prices, would in my judgment, be disadvantageous to both countries.

13,668. The next question is rather widening the survey. What would be the effect of these proposals on the position and policy of the Central Banks of those European countries which have put the gold, or gold exchange, standard into operation?—The difficulties of both classes of Central Banks, those which have put the gold standard or the gold exchange standard into operation, and those which are only aiming at doing so, would be greatly increased, as regards the first, in maintaining the standard, and as regards the second, in achieving it, owing to the enhanced value of gold which would arise from the diminution of supply. Their policy in both cases would be directed towards strengthening the position by raising their rate of interest, by

* See Appendix No. 95.

attracting credit to their own markets, and, probably, by borrowing abroad.

13,669. Supplementary to those answers, would you desire to add anything generally as to the effect of the proposals on the maintenance and restoration of the gold standard in European countries?—I should be afraid that the maintenance and restoration of the gold standard might be impaired in those countries by a resort to temporary inflation as an alternative to making a diminished demand for gold effective by a reduction in the price level of commodities.

13,670. One may just perhaps take the two rather conveniently together. As you point out to us, there must be the alternative of reduction of gold prices or inflation of credit.—I can only say generally that the effect of increased absorption of gold by India will, if other things remain the same, tend to reduce the gold prices of the world, and to lower both the cost of living and the money wages of European countries in relation to those in America. This would be the effect of the curtailment in the supply of credit referred to in your question. In India, the increase of gold imports would tend conversely, to raise the cost of living, and, in the long run, to raise money wages.

13,671. You have pointed out to us now what, in your opinion, would be the effect of the proposals on the Central Banks' policy, on world gold prices, on the cost of living, and on wages, on the one hand, in Europe and in America, and on the other hand, what you rather indicate as the converse effects in India. If I may pass on from that, I would ask you next, if European countries, and countries overseas whose financial systems are closely tied to European countries should, as a measure of protection of their gold reserves, curtail the supply of credit, what would be the financial and economic effect of such action? That is putting the same matter from a different view point.—The financial effect on Europe and allied countries overseas of curtailing credit would be a rise in the rate of interest. The economic as distinguished from the financial effect, would be to increase the cost of production, to restrict the volume of international trade, and to increase the real burden of foreign indebtedness.

13,672. I wonder if you would amplify that last particular just to make it quite clear—how an increase in the burden of foreign indebtedness would be effected?—The contraction of credit would, I assume, result in a lowering of general prices, gold would appreciate in value, and *pro tanto* increase the real burden of the national indebtedness.

13,673. Such being the general effects, our particular concern, of course, is to consider how this would react upon the interests of the Indian community. Let me therefore ask you next what would be the reaction on India of the consequences which you have described in reply to the previous question?—I think the reaction on India of a curtailment of supply of credit in Europe would be relatively slight. Her imports would cost her more, but against that India has a very considerable surplus of exports, and the demand for a considerable proportion of those, such as jute, which amounts to a quasi monopoly, is inelastic. These considerations point to a diminution of the effect in other instances, India's position being peculiar in so far as she exports a number of commodities which do not readily respond to a fall in prices elsewhere,

13,674. Looking at the consequences which you have suggested of a general fall in gold prices, what would be the reaction in India, as one unit in the world system, of such a general fall?—That is assuming that absorption took place more rapidly?

13,675. No; I am just following your last answer. I am not continuing with the questions before you, but I am just following out your last answer?—Very well.

13,676. Assuming a general fall in gold prices as a result of this fresh demand for gold, what would be the reaction upon India as one unit in the world's trade system of such a general fall in gold prices? Would it be adverse or beneficial?—A fall in gold prices would on balance be, I believe, unfavourable to India, but, as indicated in my previous answer, I think the effect would be mitigated, as compared with other countries, by India's favourable balance of payments, and the advantage she enjoys in the quasi-monopolistic nature of some of her exports.

13,677. She would escape the adverse effects in respect of her monopoly exports?—Yes.

13,678. But she would feel them in respect of her exports which are competitive. Then assuming that the absorption by India of the £103,000,000 sterling of additional gold is not spread over a period of ten years, but takes place more rapidly, what difference would this circumstance make to the consequences which you have described in reply to previous questions?—The effect would be to intensify the difficulties and to exaggerate the measures employed to counteract them, and this in a proportion even greater than the intensified demand for gold might at first sight suggest. I do not know that I have made myself clear? The more you intensify the demand for gold the more you get a geometrical rather than an arithmetical increase in the difficulties that arise, and, consequently, in the counteracting measures that require to be adopted.

13,679. I think that conveys your meaning very clearly. Can you express any opinion whether, under the scheme in question—that is the actual scheme—the absorption of an additional £103,000,000 sterling of gold could in fact be spread over a period of ten years as proposed, or whether it might not have to be at the present time supplied more rapidly?—I think the answer should be in the affirmative. I say that although I have been long away from India; but so far as I have been able to follow her monetary policy, the attempts made from time to time to introduce gold into circulation do not seem to have been successful. On one occasion in which I was directly interested—that is in 1917 and 1918—I remember we were surprised at the time how small the amounts were. Therefore, I should think that the demand is not likely, if we may judge by past experience, to be very sudden and abrupt, and that the absorption might be spread over a period such as you have described.

13,680. Elucidating your reply, let me mention the particular circumstance that under the scheme one would have dealt a sharp blow to the status of the silver rupee by proposing to limit its right to legal tender; do you think that that might have any influence in accelerating the demand for the conversion of the rupee into gold?—The assumption now is that you have abolished the legal tender of the silver rupee?

13,681. You have announced that it is to be abolished?—Within a short or a distant time?

13,682. The scheme provides that it should cease to be legal tender in ten years?—Yes.

13,683. But you have signed the death warrant of the rupee as legal tender. What in your opinion would be the effect of that circumstance in the possible acceleration for the demand for the conversion of the silver rupee into gold?—I have no doubt that it would accelerate it. I am in very grave doubt as to what the *pace* of acceleration would be. On such a point I doubt if my opinion is worth much. My old experience showed how intensely the Indians were wedded to the use of silver, and how extremely suited it was to the nature of the payments commonly made by the people. How far that has been changed of late I have no means of knowing; but I should think on general grounds that the old love of silver would be likely to persist. It would be a grave mistake, in my opinion, to argue, from the effects of a change of legal tender in other countries, that they would be

similar in the case of so conservative a country as India.

13,684. My next question is really consequential upon your previous replies, but just let me ask this to make the matter quite clear. Assuming that the £103,000,000 sterling of additional gold required for India might be substantially increased—and that is making an assumption which you have not made in your previous reply—by the withdrawal of more gold into active circulation than is allowed for in the estimates of the scheme (not that it might be more rapidly withdrawn, but that the actual amount might exceed £103,000,000 sterling), what difference would this circumstance make to the consequences which you have just described ?—The difference would lie in the degree of difficulty experienced in putting the measure into operation by acquiring the additional gold, in the various measures taken by other people to protect their stocks of gold, and the consequent effects such as the contraction of credit, to which that would give rise.

13,685. In proportion the greater the amount the greater the difficulty?—Yes; it would intensify it *pro tanto*.

13,686. The next is a general question to which you may or may not feel yourself able to give a reply. Can you express any opinion as to the desirability of the proposals of the scheme relating to gold, in relation to the interests of India, and particularly in view of the cost to India of providing a gold currency by the means proposed?—In my view the use of gold as a circulating medium for India would be of little benefit to the people . It does not appear to have any economic justification. Such arguments as I have heard used in its favour would appear to be based on some notion of national prestige, on the belief, in my judgment an ill-founded belief, that the gold standard is in itself a sign of an advanced state of civilisation. Gold in circluation would not support exchange. Our experience in the past has demonstrated that in any crisis in India or at any time when want of confidence has been specially shewn, instead of currency coming out to support exchange, the people have been disposed to hold on to what they have and to try and obtain more of it. Any gold that did get into circulation would be at the expense of the gold in the gold standard and paper currency reserves. In fact, there would be rather less than more gold available to restore the exchanges in the event of a crisis or general lack of confidence. I cannot speak about the cost. I have seen some estimates, but it is difficult for an outsider to give an opinion as to their accuracy. But India would, of course, lose the profit on the coinage of rupees, which would have taken place if gold had not been substituted.

13,687. That is loss of future profits??—Yes, a loss of future profits. Where the circulation of gold has been previously tried, it always seems to have been at the expense of the notes. I do not believe it would do much to affect the undoubted economic evil of hoarding. The fact is the only remedy in any country, I believe, for gold hoarding is increased education and, as an ancillary measure, increased facilities for banking. Until these are supplied, I do not think an extended gold circulation would offer any security or any utility corresponding to the waste involved in the substitution of a very costly for a comparatively cheap form of currency. In the normal position of India, experience seems to confirm that the most suitable form of currency for all internal purposes is, and I think must continue to be, rupees and notes. For the discharge of external obligations, what is required is not gold in circulation, but gold in reserve as a means of effectively converting the internal currency on demand into an exportable surplus. Those are the general grounds on which I am opposed to the gold currency scheme.

13,688. Turning from that topic, in connection with the question of gold currency, a doubt has been expressed regarding the real intention of the Currency authorities in the United Kingdom concerning the ultimate policy in the matter of reverting to the pre-war practice of free convertibility of the British note into gold coin. Can you tell us what your opinion is about this: as to whether the idea of having gold currency in England has been practically abandoned or not?—May I ask the Governor to answer that?

13,689. Certainly. In connection with the question of gold currency, Mr. Governor, a doubt has been expressed regarding the intentions, so far as they can be judged, of the Currency authorities of the United Kingdom with reference to the ultimate policy of reverting to the pre-war practice of free convertibility of the British note into gold coin. Will you be able to express an opinion as to whether the idea of reverting to gold currency in the matter of convertibility of the note may be said to have been practically abandoned or not?—(*Mr. Montagu Norman.*) That is circulation of coin?

13,690. Convertibility of note into gold coin circulation?—Well, speaking for myself, I hope that the time may arrive, both in this country and in India, when circulation of gold coin may again be resumed. So far as this country is concerned, I think it is very remote. I rather suspect that so far as India is concerned, it is equally remote I do not expect to see it in this country myself.

13,691. You mean in your life-time?—I mean in my life-time; but I like to cherish the hope that it will come back again, and will be a sign of that prosperity which I trust we may reach again. But with what financially Sir Charles has said I agree entirely, and that is, that what we need at the present time—all of us in all countries—is our gold in reserve and not in circulation. I think Sir Charles did indicate that.

13,692. As regards British policy, you faintly trust to the larger hope?—I intend to work for that end, but I do not expect to see it in my time.

13,693. Would you expect to see it in this country, so long as there was any possibility that the restoration of the right of convertibility of notes into gold might result in any substantial demand for gold?—Yes, I should.

13,694. What period would you contemplate in which it would be possible to resume the convertibility of notes into gold in this country, and under what conditions?—Well, this is dreaming, is not it? We are dreaming now.

13,695. If we are only dealing with dreams, I think it is hardly worth while to pursue it further?—That is really it; but I think the time will only come when our international position becomes so strong, and our exchange rules so high and so satisfactory to this country, that gold will come in greater amounts than we need, into the Bank reserves; and we shall then be glad to use part of that redundant gold for circulation.

13,696. On another general question can you assist the Commission with any evidence as to the probable future relation between the world's demand for gold and its supply, assuming that Indian conditions remain unchanged?—(*Sir Charles Addis.*) As regards the supply of gold, I have no special knowledge, but I have seen the figures supplied by Mr. Kitchin and others. The outlook, apart from new discoveries and new scientific methods of mining, appears to be for a general decline in the production of gold. As regards demand, I think there will be an increased competition for gold as a backing for the note issues of a reconstructed Europe. Against that there must be set certain economies in the use of gold—possibly a change in the monetary habits of the people. The co-operation of the Central Banks of Europe, which has already begun, may be developed in such a way as to effect considerable economies in the international use of gold. These considerations may be taken as a set-off against the decreased production of gold, and the increased demand. But of course, those economies are in my view less certain than the increase in demand and the decrease in supply, and

there is no means of making even an approximate estimate of their quantitative value. My statement is merely an indication of the opposing tendencies likely to be at work in the future.

13,697. Following upon that, I would ask you a question which you specially and peculiarly are entitled to answer. Assuming under this outlined scheme which we have been considering a blow to the silver market resulting in a reduced status and value of silver, in your opinion what effect if any, would that have in promoting a demand for gold in China in replacement of silver as a store of value and a means of circulation?—For a long time—for more than a generation—the Chinese have been profoundly concerned with the instability of silver as a basis of credit and as a store of value. Their fears have been increased by their isolation. China is now the only great silver using country left. She is surrounded by a circle of countries all of which are either on the gold standard or the gold exchange standard. The Chinese also feel strongly, although I think wrongly, that in some way or other national prestige is mixed up with this question. They would like very much, and have for a long time been anxious, to find some means of adopting gold or some form of gold exchange standard as the basis of their currency. I believe the change would have been made but for the expense. The catastrophic fall in the price of silver in terms of gold which might take place on the bare announcement that the world's production of silver for two or three years was to be for sale, would tend to stimulate the movement in favour of a change of currency in China. They would do their best to devise means for securing the amount or gold sufficient to serve as a basis for instituting some form of gold exchange standard. That would in turn increase the effect already produced on silver by the Indian announcement, both by a reduction in demand for China and, to some extent, by an increased supply of silver drawn from hoards.

13,698. One more question on the gold market, which is a question rather more in detail. Can you give an estimate of the annual increment to the stock of gold for monetary purposes which is needed to keep pace with the economic progress of (a) Great Britain, and (b) the rest of the world?—I have no special knowledge on this subject. I have always accepted, what I think is generally accepted, that the increase required is about 3 per cent. per annum. I think it is Mr. Kitchin's estimate. *Mr. Montagu Norman*: And Professor Cassel's, too. (*Sir Charles Addis*) His is 3 per cent. also I think.

13,699. Can you express any opinion as to how many years it will take for the stock of gold for monetary purposes now held by the United States of America, and at present regarded as redundant, to be absorbed in this manner?—I should say from what I have seen in the Press generally, that the extent of the period is probably very much exaggerated, and that there is also gross exaggeration in the amount which it is supposed America could prudently afford to lose. You probably have the figures for last year. There was a surplus of exports of gold amounting, I think, to 150,000,000 dollars. You have those figures, Sir Henry, I suppose.

13,700. *Sir Henry Strakosch*: I have not got the figures. (*Mr. Montagu Norman.*) I think it was over 200,000,000 dollars. (*Sir Charles Addis*) That would strengthen the argument. Say it was from 150,000,000 to 200,000,000 dollars. At that rate it would not be long before the total was reduced by half. In my opinion I give it to you for what it is worth—it is doubtful if America could afford to part with much more. On that hypothesis the answer to your question would be ten years.

13,701. (*Chairman.*) Taking into account the surplus of exports and the internal absorption of gold?—Yes.

13,702. We now turn to the proposals of the scheme under consideration relating to silver. Can you assist the Commission with any evidence as to the probable future relation between the world's demand for silver and its supply, assuming Indian conditions to remain unchanged?—The world production of silver has been curiously unequal of late years owing to the war. During the last three years it looks—and I do not think one can say more than that—as if it had reached its peak, as if we might look forward now to a gradual decline in production. Failing the discovery of new mines of silver or of copper or of lead, of which silver is an important by-product, the supply of silver in future is more likely to diminish than to increase. On the other hand, I think that the increasing use of notes not only in Europe but in the Far East, and the resort to nickel and the baser metals as an alloy for subsidiary coinage, point to a diminution in the demand for silver in future. I think I ought to add to that a piece of information which I only got this morning. It is reported by the Vice-President of the Bank of China Mr. Chang Kia-ngau, that up to three years ago the mints in China were coining about 600 millions of dollars, say about £6,000,000 of silver, per annum. If that statement is correct it would imply that the use of silver by China is greater than is generally supposed. Mr. Preston, who has special knowledge of that point, might perhaps be able to give an opinion. For myself I was very much struck with the magnitude of the amount.

13,703. I gather from your reply as regards the demand for silver for monetary purposes, that you expect to see rather a decrease in demand because of the use of other metals for subsidiary coinage, than any increase in the subsequent demand?—With the possible exception of China.

13,704. With reference to the actual proposals before us, assuming that the proposals involve the sale over a period of 10 years of an amount of silver equal to about three times the present annual world's production, what in your opinion would be the effect of that on the silver market?—I cannot give a quantitative answer to that question, qualitatively it would be catastrophic.

13,705. Then what effect would the proposals have on the markets in copper and other base metals?—It is estimated by the United States Mint Master, that of the total production of silver about 30 per cent. is produced from the precious metal ores and about 70 per cent. from the base metal ores. Some copper mines, it is said, are only kept going by the sale of extracted silver. The effect, therefore, upon the market in copper and other base metals would be to lower the production and raise the prices of those metals until the demand and supply were equated at a new composite price level, copper rising and silver falling; where the new point of price equilibrium would come to rest, I do not know and have no means of estimating. It used to be said, and to some extent calculations were based on the alleged fact, that silver could be produced at a cost of roughly 50 gold cents an ounce. I presume that the cost is higher now and that the mines on the margin would be the sooner thrown out of action. Those considerations would lead one to believe that the fall in silver would be severe, and that it would be accompanied by a rise in the price of copper and other base metals, but one cannot say how much.

13,706. There is another branch of the matter on which your experience will help, and that is, what effect would a fall in the price of silver have upon its volume of production in view of the intimate connection between the production of silver and certain base metals?—Copper and lead mines above the margin would perforce go on producing silver. They could not help themselves. It is to be assumed that the growing demand for electrical copper would raise the price of copper and counteract to some extent the reduction in silver supply from copper mines formerly below the margin. What we must look for therefore, would be a great decrease in the production of silver from the silver mines and a comparatively reduced production from the copper and lead mines.

13,707. That is that the diminution in the production will affect the sources of only about 30 per cent. of the supply?—Yes, so far as the direct supply from silver mines is concerned.

13,708. If the fall has the effect of curtailing production would it be reasonable to suppose that a fall in the price of silver to 24d. will so contract production as to stabilize the price of silver at about that level, and permit of the absorption of, say, 20 crores of rupees annually?—I would not like to hazard a guess at the price.

13,709. The general effect of your reply is to point out that owing to the special circumstances of the production of silver the volume of production is not likely to be as sensitive to a diminution of price as it would in the case of an ordinary commodity?—Yes; you have to consider it as a composite product.

13,710. In what respect would British interests be affected by the silver sales in question and their consequences?—I should like to say, in reply to that question, that the only great country left with a silver standard is China. It is true that relatively to the volume of British international trade, the trade with China may seem to be relatively unimportant. But it is the greatest, perhaps the only great, undeveloped country left for the expansion of British industry. The immediate effect of the announcement that the Indian Government contemplated the sale of a large quantity of silver would be to throw out of gear the exchanges with China and, for a time, to paralyze trade with that country. There would be a tremendous disturbance of internal prices in China, a great shock to public confidence and, I should fear, unwise and panicky attempts to get out of the difficulty by resort to what, in present circumstances, would, I think, be unsuitable to China, namely a gold exchange standard. All those things would react upon this country very seriously. I think that one also has to bear in mind the interaction between gold and silver prices. There is a reaction upon gold prices when an extreme fall or rise takes place in the value of silver, which is none the less serious because it is indirect and not very apparent on the surface. The consequential changes in prices generally, and in trade conditions, which would be produced, the disturbance to the world's economic peace and confidence, the interference with the long established social habits of the people of India in the use of silver, the shock to the reliance of a great country like China upon silver as a medium of currency and a common store of value, could not fail to have important effects upon the gold prices of countries in Europe, and indeed in America.

13,711. We understand from your reply that the principal British interest involved is the stability of Chinese trade, and it is the fact that silver sales would be adverse to that which leads me to my next question; having regard to the desirability of British co-operation in the carrying through of the plan—for instance, in the matter of providing credits—how, in your opinion, would it be viewed by the financial authorities in Great Britain?—Might I suggest that perhaps Mr. Norman would reply to that?

13,712. Certainly. It is a question on which he may or may not be in a position to express an opinion?—I think, if answered, it ought to be answered by the Governor.

13,713. Very well?—(*Mr. Montagu Norman.*) I think it is very difficult to answer that question unless we are at liberty to take a survey of the whole of these proposals after you have come to the end of these specific questions.

13,714. If you please. We will reserve that and possibly I will ask you a general question on the subject after we have considered it more in detail?—If possible.

13,715. Referring to another aspect of the proposals which are now under consideration may I ask what difference would the imposition of a duty on the importation of silver into India make to the consequences which you have described in reply to the previous questions?—(*Sir Charles Addis.*) The tendency would be to increase the demand for gold as a substitute.

13,716. To increase the demand for gold where?—In India.

13,717. Would an import duty in India have the effect of preventing any of the catastrophic consequences to the silver market to which you have referred?—No. I do not think so.—(*Mr. Montagu Norman.*) No.

13,718. Would it be effective to maintain the value of the silver held in India?—(*Sir Charles Addis.*) No, it would not maintain the value, although to some extent it might mitigate the devaluation of silver. I think the effect of a moderate import duty would be comparatively slight.

13,719. The average annual importation of silver into India for use in the arts, as ornaments, and all purposes other than coinage, for the last five years was 81,000,000 ounces. Assuming that the effect of the proposals under consideration, with or without the imposition of an import duty, would be substantially to reduce the importation of silver into India for purposes other than coinage, what difference would that circumstance make to the consequences which you have already described?—It would lead to an increased demand for gold as a substitute for silver which has been excluded.

13,720. Can you express any opinion as to the desirability of the proposals of the scheme relating to silver, in relation to the interests of India, and in particular the circumstance that silver is a favourite store of value among the poorer classes there?—It would immediately and heavily reduce the gold value of the native hoards of silver which are very large. There would also be a danger, under the scheme, of the silver rupee circulating at a discount or a premium side by side with another form of currency. Even if as a token coin its legal tender were reduced to 50 rupees, as I think is suggested, that does not mean that it might not become so scarce as to command a premium in the market or so redundant as to fall to a discount. Either of those eventualities would be prejudicial to the external exchanges. The dethronement of silver might be resented as an arbitary interference with the secular social habits of the people. At the best the proposed scheme would be a risky and even dangerous experiment. It seems to me to labour under the inherent defect of implying (which I do not accept at all) that, if you reduce, or indeed if you abolish altogether, the use of the rupee as legal tender, you abolish its social use. After all people do choose the forms of currency with which they elect to make their daily payments. Even if your legal tender is reduced to 50 rupees that is still a considerable amount for a people where the annual income used to be estimated at £2 a head; it is probably not much more than double that now. For a person with an income of 5 rupees a month, 50 rupees afford considerable scope for making payments. I do not believe the use of the silver rupee will be abolished by the scheme proposed. It does not lie within the competence of a government, merely by legislative action, to prevent a part of the currency circulating at a premium or at a discount. That is determined by the people's choice. The Indian people have placed their trust from time immemorial in silver as their medium of exchange and as their store of value. If the scheme should be successful in undermining that confidence, who may say what the consequences may be? Responsibility for the consequences is one which I do not believe any banker would willingly assume, I should doubt if it were wise for any Government to do so. On these grounds generally I think that the scheme is unwise and that it presents grave disadvantages which to my mind quite outweigh its supposed advantages, even allowing, which I doubt, that the advantages such as bringing

money out of the hoards and so on, would be realized.

13,721. Assuming that the Government of India requires to raise credits in order to bridge the period between the introduction of a gold currency and the realisation of the silver which you would replace, which credits might amount to 150,000,000 dollars in New York and £23,000,000 in London, what considerations, arising either out of the nature of the scheme or from external circumstances, would militate for or against the proposal by the Government of India to obtain such credits in London?—I should like to suggest, if I may, that as the Governor is to speak generally upon these questions after I have finished, it might be convenient to allow the next three questions to remain over for his consideration.

13,722. If you please?—That is to say, the questions regarding credits in London and in New York, the difficulties of borrowing at these centres, and the cost of the credits. These are questions peculiarly within his authority.

13,723. Then I will reserve those to the end, if that is convenient?—If you please.

13,724. I had in mind to ask you something on the following lines, viz:—it has been suggested that the conversion of silver hoards into gold, and the introduction of a gold currency, will ultimately lead to a reduction of India's demand for gold for non-currency purposes. But you have already dealt with that in reply to other questions, so I need not trouble you with further questions on that subject. I now come to another topic, and that is the question of the stabilisation of the rupee and the rate of stabilisation of the rupee. It is relevant to the enquiry of the Commission to consider whether the times are ripe for a stabilisation of the rupee at a fixed rate in relation to gold or sterling. Do you consider that there is any factor in the world financial situation which would make it prudent to postpone any such measure of stabilisation such as the fixation of the ratio?—I see no reason of urgency for making the change now. We have to weigh the advantage of putting an end to the present uncertainty with the risks involved in a premature decision. In my view, it would be better to wait until further progress has been made in the stabilisation of European currencies, and until the reconstruction of the economic life of Europe permits of some sort of reasonable estimate being taken of the future course of world prices. There are still some indeterminate factors which may materially affect the course of prices in the future. Apart from the fact that Italian, French, and Belgian currencies cannot yet be said to be stabilised, you have also to remember that when that has been accomplished it may not be long before the banking resolutions approved by the Powers at the Genoa Conference come into play. A deliberate and concerted attempt will then be made by the Central Banks of Europe to prevent undue fluctuations in the future value of gold. That seems to me a consideration of very great importance. It would be very unfortunate if, by any premature action, you were to stabilise Indian exchange at a rate which, while it maintained external prices, may leave internal prices, so to speak, stranded and isolated from the rest of the world owing to subsequent changes arising from the causes to which I have referred, and particularly from the joint action which may be taken by the banks under the terms of the Genoa resolutions.

13,725. Supplementary to that, what is there, in your opinion, which differentiates the case of India from the case of other countries which have deemed it prudent already to stabilise their currencies in relation to gold?—If I understand your question aright, it amounts to this. If it is wise for France to stabilise now, why should India wait? Is that it?

13,726. Yes; if France, or Italy, or Great Britain, or any other country can do it?—I think the general answer to that is the close association of India with this country. If, as is contemplated, Europe is to become, as regards prices, an economic unit, it would be putting the cart before the horse if India were to stabilise prices and then expect other prices to approximate to hers. The suggestion is that in view of the relative area of the market of India, on the one hand, and of Europe on the other, it would be more in the interests of India to determine her internal prices with some relation to stable world prices, rather than to risk the attempt to determine her prices beforehand. I do not know whether I have succeeded in making my meaning clear?

13,727. I am not sure that I follow it.—It is suggested in my reply that it is better to wait.

13,728. I follow that.—And that there is to be a concert of European Central Banks to reduce the prices of European countries to a common denominator, and that there is a danger, if India were to stabilise her exchange first, that her internal prices might be left out of relation to the European price unit, and that it would be a safer policy to pursue if India were to wait until the European unit was fixed, than to go through the painful process subsequently of adjusting her internal prices to accommodate them to what world prices might then be.

13,729. Do you foresee any marked change in the prices of the European unit at any future period?—In gold prices?

13,730. Yes.—I have no considered opinion on that subject.

13,731. That would be the most relevant consideration in your argument, would it not?—My argument is based entirely upon the prudence of not running the risk of a change in future gold prcies, unless there is some very strong and urgent consideration to do so.

13,732. Supposing your tentative conclusion were accepted—that it might be more prudent to wait—what, in the meanwhile, should be the policy and the action of the Indian currency authority as regards the exchange?—I think the policy should be as far as possible to mitigate the seasonal fluctuations of exchange, but as regards the more permanent movements, so far as these can be ascertained, exchange should be allowed to take its course.

13,733. If one is to eliminate fluctuations, that postulates that one has accepted some mean, does it not?—It implies the adoption of some mean which, while it remains steady so far as seasonal causes are at work, is indeterminate as regards permanent or quasi-permanent economic effects; that is to say, the mean should be altered from time to time if it is found that trade is permanently tending in that direction.

13,734. Do you see any disadvantage to the prosperity of Indian trade in there being uncertainty as to what the mean was to be from year to year?—Certainty is always to be preferred to uncertainty. I only suggest that the certainty may be purchased at too high a price. If the internal prices are, by means of it, thrown out of relation with the prices of the world, you might have, if the point at which you fix your exchange were too high, internal prices in India so low as to be adverse to the large mass of producers; conversely, if your exchange mean were too low, you might have prices in India, from the point of view of the consumer, unduly high; that is say, relatively high to the rest of the world. Both these are evils to be avoided.

13,735. You prefer to express no opinion as to whether or not there may be any marked change in gold prices in the European unit? Weighing one disadvantage against the other—that is, the possibility of a disruption of Indian internal prices against a fluctuating rate of exchange—which do you think is the greater?—I should wait if I were the Government of India; but I do not feel very strongly

about it. I do not doubt that if they wished to fix the rate at the present quotation, they could do it. I admit that if, for instance, they fixed the rate at 1s. 6d., probably no great harm would ensue. But I also think that with prudence and caution there would be no great harm in waiting a little longer. I do not put it higher than that. You might be right in doing it now, but you would have a better prospect of being right if you waited some time longer. (*Mr. Montagu Norman.*) May I say a word or two on this matter? I have had relations with various parts of Europe, some of which I have wished to stabilise their exchange as soon as they can get their internal and external prices, and all the rest of it, adjusted. Therefore, while theoretically I agree entirely with Sir Charles—as I do right through—practically I should find it difficult to give different advice from what I have given in respect of all these countries, namely, that when they can see the occasion they should stabilise. I do not think that is very different from what Sir Charles has said. (*Sir Charles Addis.*) I do not differ from that. When the occasion is opportune they should stabilise. (*Mr. Montagu Norman.*) I interposed simply because I have said so many things to various Europeans about stabilisation that it would not be honest for me not to say the same here.

13,736. Would you like to express any opinion on the particular case of India, as to the foreseeable factors in the future situation which would make it prudent to wait, such as those which Sir Charles has described?—(*Mr. Montagu Norman.*) I recognise those factors. I believe theoretically they are perfectly true and correct. I am certain in my own mind that if I had to decide between stabilisation at what appeared to be a reasonable level and waiting to see what was going to happen, I should stabilise; and that is the advice I should give to every country. I do not think Sir Charles will disagree with that. (*Sir Charles Addis.*) No.

13,737. One more detailed question on this point No. 13, in regard to the rate at which the rupee should be stabilised. It has been suggested that a rate lower than the existing rate will reduce the total demand for gold in connection with the introduction of a gold standard in India. What weight, if any, should be attached to this suggestion?—(*Sir Charles Addis.*) I suppose the argument is that the price of gold in terms of rupees would be increased, and that, since the native thinks in rupees, should reduce the effective demand. There is that tendency, but there are other factors at work which suggest that it would be unwise to attach undue weight to this consideration, unless the ratio fixed were substantially lower than at present.

13,738. Lastly, on another topic, in regard to the remittance operations of the Government of India, a question has arisen as to whether they should be conducted as hitherto by the time-honoured system of sales of council bills in London, or by means of the purchase of sterling bills from exchange Banks and firms in India, as has been done since 1923; and it has been suggested in favour of the older system that it gives greater facilities to the various foreign nations trading with India, owing to London being the most central market. What importance do you attach to this from the practical point of view?—I attach very little importance to it. In my view the facilities presented to foreigners by the older system are of minor importance. The determining factor in selecting one system rather than another for remittance operations by the Government is the comparative cost to the Government itself, and this can only be tested by experience. It should, in my judgment, be the determining factor, without regard to the interests of foreigners. (*Mr. Montagu Norman.*) May I add a word on that point? I am a looker-on on this operation, but I have also had some slight experience with regard to remittances to other parts of the world. I believe that the advantage to the purchaser lies immensely in having his hands free to buy in the market as and where he wishes and when and how he wishes. Therefore I think the advantage to the purchaser in this case is in the method which has lately been adopted and which is now in use. I would not, if I had to advise you, abandon the possibility of having tenders, but I do believe that, by and large, the purchaser—the Government of India—will do far better to make his purchases, as of late has been done, and not to revert regularly to the tender system.

13,739. On grounds of greater freedom?—On grounds of greater freedom, and I may almost say on grounds of greater secrecy, which I believe is necessary in many exchange operations.

13,740. We have left over some questions, but possibly you may prefer to have an opportunity in the first place of dealing with the matter rather more at large, or shall I put to you specific questions?—(*Mr. Montagu Norman.*) Perhaps you will allow me to try to start. I have not anything written out, except a few notes which I made while Sir Charles was speaking. No doubt you will put to me questions on any matter which I forget to mention. I am not going to attempt to look at this from the internal view of India. I wish to look at it internationally for the moment, because no one thing has impressed itself more on my mind during the last few years than that we are all becoming knit one with another, and that whatever one country does affects all other countries. Therefore whatever one country proposes may be judged by the effects it is likely to have on the other countries to a large extent. Now these proposals, as I understand them, first of all deal a deadly blow at silver. From my point of view it is impossible to consider the gold proposals in this connection apart from the silver proposals. I therefore have to look upon it that gold is to be enthroned and silver is to be dethroned. The price of silver has to suffer accordingly. The price of gold may or may not suffer accordingly. With gold it is not so much a question of price as a question of available supplies. In order to carry out this operation it is therefore necessary, sooner or later, to borrow or to acquire one hundred odd millions sterling of gold, and to dispose of six hundred million ounces of silver. I take those figures from these papers. In point of fact, a great deal of that must be done by borrowing, at any rate temporarily. These are the credits which are spoken of. Now, who are the lenders, or the possible lenders, at this moment in the world? There are only two—the United States and Great Britain. Which countries at the present time can enjoy, or do, in fact, enjoy, a gold circulation, and have enough gold to use it for that somewhat uneconomic purpose? There is, in fact, only one, and that is the United States. Now, what are we to do, therefore? It will be necessary, so far as this country is concerned, to do our best, if the thing is to go through, to advance whatever sums may be necessary in the way of credits or otherwise for India to acquire this amount of gold. But obviously this is not the sort of amount which London can find alone. Moreover, it is my belief that once these decisions were taken, silver would be thrown out and gold would be anxiously acquired in India. The dethroning and the enthroning would take place quickly, in my belief. Therefore, when it comes to borrowing this money, I think we have to look to the United States; and I must remind you there that in order that this country, Great Britain, might return with safety, not to an enhanced standard, as is proposed for India, but to the old standard which was enjoyed here before the war, it was necessary for this country during the transition stage to enjoy not only the credit but also the goodwill of the United States. Therefore we must consider the position of the United States along with that of Great Britain, and we must consider the two together as regards silver as well as gold. We must remember, further, that the three great silver-producing and working countries are Canada, Mexico and the United States, and the whole centres in the

United States. Silver in the United States is not only a by-product, as Sir Charles was saying, to copper, tin, zinc, lead, and so forth, and is in that capacity extremely important and valuable, but it is also a product *per se*, and carries with it as large a political backing, I should think, as any question in the United States. Therefore I do not believe you can touch silver in the United States without at once raising, not only a financial or economic question, but a political question. I think the position would therefore be extremely difficult. Now, what would happen? I believe it would be impossible for those reasons—for the silver reason—to borrow or to open such credits in the United States for the purpose of carrying out this operation. If that were so it would naturally make a difficult position for us here as to what policy we were to pursue, and it would be very likely—by "it" I mean the raising of these credits for Indian use for this particular operation—to raise awkward questions between us here and our friends in America, if not between the administration there and the Government here. Whether it would do the latter I do not know; but that it would raise a difficult position between our friends of the Reserve Bank there and the Bank of England here, I am very certain—and that with every wish in the world to accommodate and to do what we can to help. The other point on which I should like to say a word is this. Europe and other countries, all of whom suffered to a greater or less extent during the war, are now gradually trying to climb back, not only to stability, but first of all to a gold exchange standard, and then eventually to a gold standard. They are all trying to do that by a method which I believe to be fundamentally sound—and to be recommended to any others who are considering this question. That is, first of all to adopt a gold exchange standard with little or no gold, and then to look to it over the years to replace gradually the gold exchange, the valuta security, by gold security. That is proceeding now in several countries in Europe and in several countries outside Europe—or is going to proceed. It requires for its fulfilment that there should be a certain amount of, as it were, surplus gold each year, and the pace with which this plan has been carried out during the last year or two—the only period during which it has been proceeding—has necessarily been somewhat retarded by the fact that there has been little surplus gold available. The reason why there has been little gold available on the whole is that of the supplies of fresh gold the greater part have gone to India. Therefore, already, on this basis, the stabilisation of Europe, and to some extent including this country—but the stabilisation of Europe, a very important thing for all of us and not alone for India—is dependent on having over a series of years a certain supply of gold by which those various countries can gradually substitute gold for valuta—gradually, possibly, transfer gold exchange standard into gold standard to the extent of having their note circulation covered more and more by gold and less and less by valuta; never going back, as I expect, absolutely to a gold circulation, but nevertheless, over the years, each one gradually getting a higher proportion of gold against their note issue. That, I believe, is the way in which Europe, and countries beyond Europe, may eventually solve the questions of stability, of security of Note issues, of prices, and of co-operation one with another—all moving forward together. Many countries are developing in that direction. No one country, I think, has the power to run ahead to any great extent of the others. I believe the advantage of the many, as well as the advantage of each one, is that this progress should be gradual and united. These are the general views I would like to put before you. They point to the extreme difficulty, if not to the impossibility, of carrying through the proposals which have been put before this body—for reasons which I have tried to point out. They are proposals which I think are very inadvisable from the point of view of the progress which the world is making towards stability at the present time.

13,741. I take it that the picture which you have painted for us is this: If all the principal countries keep in step in the march towards a sufficiency of gold reserves to attain the object of internal convertibility of Notes for gold, then they may all hope to arrive at that point at some future period; but if one principal country upsets, as it were, the apple-cart, then nobody will get there; at any rate, the period will be indefinitely postponed. That is a true impression to be gained from your reply?—That is a perfectly true impression, except that I alluded to the difficulty, if not impossibility, of obtaining the assistance which is necessary for this one particular country to make this particular move now.

13,742. In your general dealing with the matter which you have so kindly given us, I think you have really replied to the particular questions which I had reserved to myself to ask you, and I do not think I can with any advantage put them to you now in detail. It would only be a matter of repeating in substance what you have already told us.—I am anxious to answer any questions you may put to me.

13,743. For instance, if I were to ask, would a proposal by the Government of India to obtain such credits in London for the purpose of carrying out the scheme referred to (for putting gold into circulation in India, concurrently with the sale of silver) be likely to encounter any such difficulties as would make it undesirable to contemplate that step, you have already given us the answer?—I think the difficulties would be extreme.

13,744. Or again, assuming that the credit of £23 million would not be required for a longer period than five years, what would be the cost to India of embarking on such a credit scheme: (1) if the credit is not required to be actually drawn on; (2) if the credit is only partially drawn on, in the first place you tell us it would be very difficult to find such credits. I do not know whether you would be prepared to express any opinion as to the cost?—No, I could not express an opinion as to that, but I say that it would be extremely difficult, the credit being connected, as is must be at this time, with the silver proposals before you.

13,745. (*Chairman.*) I have some questions which I should like to ask you, if I may, about the constitution of a Central Bank, but perhaps at this point, on this first topic, I might ask you to deal with any supplementary questions which some of my colleagues may like to ask.

13,746. (*Mr. Preston.*) If I were to say that with regard to the proposition which you have been dealing with—the written one—there is another body of opinion in India—a large and an influential body—which has a totally different opinion as to what ought really to happen in India with regard to the currency system, a body of opinion which perhaps I might call at this moment an inarticulate body in so far as there are no representations of what their ideas are before you, but if I were to assure you that those ideas are totally different from those which have been represented to you in that written document, would that cause you some sense of comfort?—I do not think I quite catch your point. You say there is a great body of opinion in India——

13,747. Other than that which is represented by that document and whose views are other than those represented in that document, but which is a very influential body, would that cause you some feeling of comfort?—I should like to have your question more definitely put. You mean that this body of opinion of which you speak does not favour gold circulation?

13,748. That is rather a detail of the whole. This body of which I speak does not favour the programme as written and as represented to you and as has been dealt with this morning.—What is it you are asking

me, Mr. Preston, because I do not think I know exactly?

13,749. May I enlarge it. There is another body which considers the older system which used to be in force in India as having rendered a great service to the country. They recognise that it had a weakness, but they attribute that weakness not to any fault of the system but rather to mismanagement of the system; and in expressing their opinions now as to what should be done with regard to a future currency system they desire to have brought into force in India what they term an improvement on the old system, which would really mean that what we should have would be a simple gold standard; that is, a free inflow of gold and a free outflow of gold but that, as regards the question of currency, that should not be attempted until some more remote date, when a sufficiency of gold could be accumulated without disturbing world prices. Would that meet with your approval?—I should be very glad to hear that anybody agreed with me. It is always comforting.

13,750. Is that following your line of thought?—What I have said applies to this particular scheme. I have not elaborated any particular alternative scheme.

13,751. I thought it only right that I should state that there is another school of thought not represented in that scheme, and to ascertain your opinion as to that other school of thought.—What I did not approve of was the question of a gold circulation. That is the point of this scheme. Any scheme, short of that, which might be altered or amended in years to come but which at the present time allowed people to acquire gold as they acquired any other commodity, I should think would be satisfactory.

13,752. That is to say, a simple gold standard?—I do not know what a simple gold standard is.

13,753. A free and unrestricted inflow of gold into India which we had—And have now.

13,754. Yes,—and a free and unrestricted outflow of gold which in old days was optional. What we merely desire now is to compel an obligation on the part of the authorities.—I prefer the option.

13,755. You still prefer the option?—I think so.

13,756. That is for the export?—What I understand is that it is a market in which gold is a free commodity. Is not that what you are speaking of?

13,757. Under the old system what happened was that the gold went in at the upper gold point. What is asked for now is that is shall be an obligation on the part of the currency authority to allow gold to go out when exchange reaches the export gold point—which, I think, really represents the views which you have expressed this morning?—Yes, I think it does, but it is only fair to say this: I have been addressing myself to a particular scheme. I have not endeavoured to supply any alternative.

13,758. Quite so.—But I should be disposed, after listening to you now, to think that a market in which gold as a commodity was free to come and go, and it does at the present time, would be a satisfactory basis on which to continue, at any rate for a time. (*Sir Charles Addis.*) May I interpose a question? Does Mr. Preston mean that the silver rupee should be convertible into gold or not?

13,759. For export purposes, to maintain exchange—not for internal purposes.—Could anyone go to the Government and demand sovereigns? Could anyone present rupee notes or silver rupees to the Government of India and demand an equivalent quantity of gold without limit?

13,760. For export only, or for gold funds.—That is your proposal?

13,760A. Yes, in maintenance of the exchange.—(*Mr. Montagu Norman*): You differentiate between gold for export and gold for valuta.

13,761. Not for internal purposes—not at present?—Do you insist that there should be——

13,762. Actual gold or gold funds?—Or valuta.

13,763. Yes.—Then I agree with you.

13,764. Now with regard to the silver position, Sir Charles has said that the scheme as suggested is unwise and unjustified, and you yourself have told us that you consider it a deadly blow to silver. Will you allow me to present the Indian silver position to you in a very few words?—I was speaking internationally, of course.

13,765. Quite so. According to the evidence which has come before us, the total amount of silver in circulation amounts to about 250 crores of rupees. Taking the population in India as 320,000,000, and only allowing the very low figure of 6 rupees per head for circulation it would practically mean that we would be reduced to an item of 80 crores of rupees. Those 80 crores exist to-day in the Government Treasury chest. According to further evidence which we have received, it is estimated that a fair reserve for India's purposes to-day is about 40 crores. Accepting that, that would leave us with 40 crores still to deal with in the currency reserve. We have further evidence that the annual consumption is round about 9 crores per annum?—Consumption?

13,766. Annual absorption. If the annual absorption is 9 crores and we have 40 crores left, we would only then have in sight a five years' reserve before the Indian aurthorities would have to be contemplating further purchases of silver. If the position is such as I have presented it to you, would that strengthen you in the views which you have expressed—that the proposed action to be taken is most unjustifiable?—I do not understand what you have said, Mr. Preston. I think I would have to write the figures down before I could understand them.

13,767. May I go over them again, if I am not tiring you?—Allow me to say this: I was addressing myself to the external position. It is from that point of view that there would be 600 million ounces potentially for sale, and 100 million sterling potentially to be borrowed. You are telling me the internal position, are you not?

13,768. Yes. (*Sir Charles Addis.*) Is your point that the amount of silver which would have to be sold—available for sale—is greater or less than indicated in the figures?

13,769. Very much less—so much less that the position really does not justify even the consideration of a sale of silver. Will you let me go over the figures again?—(*Mr. Montagu Norman.*) Your point is that the figures on which I have based the answers which I have given to the Chairman are entirely wrong.

13,770. (*Mr. Preston.*) I think they are from a wrong angle entirely.

13,771. (*Chairman.*) Mr. Preston, would you put it in this way so as to enable the Governor to answer? Would you ask him whether he could express any opinion on the point that the Indian position in respect to silver is such as to make it prudent or justifiable to contemplate the sales of silver which are proposed in this scheme?

13,772. (*Mr. Preston.*) Certainly.

13,773. (*Chairman.*) The point is whether you are able to express an opinion as to whether the Indian position as regards silver, including in particular the demand for silver rupees and the normal increase of currency, is such as to make it prudent or justifiable to contemplate at the present time such sales of silver as those which are proposed in this scheme?—I have no idea about it.

13,774. (*Mr. Preston.*) May I go over these figures again and try to make them clear as representing what really appears to be, according to the evidence we have had, the position in India to-day. First of all the total outstanding rupees in circulation are estimated to be 250 crores. If we allow 6 rupees per head of the population for circulation that would take away 190 crores. The balance then left is to be practically found in the reserves in the currency chest to-day, which amounts to nearly 80 crores. We have that in our currency reserve—80 crores of rupees. We have had it in evidence that the working reserves in India should be 40 crores of rupees. The deduction

of 40 from the 80 leaves us with 40 crores. We have also had it in evidence that the absorption of rupees is 9 crores of rupees per annum. With a redundancy of only 40 crores and with an average annual absorption of 9 crores, that does not mean five years' requirements.—(*Sir Charles Addis.*) Have you taken account of the silver in hoards, which might be withdrawn?

13,775. That could not come out. There are no mints. You could not coin your rupees. That would not affect the question. We are looking at what is the actual silver in circulation?—You suppose everything remains as it is?

13,776. Yes.—Then I agree. That is quite apart from the scheme, is it not?

13,777. Yes, quite apart from the scheme.—My only criticism would be that if the scheme is not adopted, then an amount of 40 crores in your reserve would not be sufficient. But those hypothetical questions are quite apart from the proposed scheme.

13,778. (*Mr. Preston.*) Yes, they are entirely apart from what you have been dealing with.

13,779. (*Chairman.*) Mr. Preston is really putting a continuation of the existing state of affairs.

13,780. (*Sir Alexander Murray.*) Sir Charles Addis, in your evidence you have said that unless there was any great urgency you did not see any necessity for fixing a ratio of exchange, but is it not a fact that the 2s. ratio which is now on the Statute book is preventing the free in-flow and out-flow of gold for the purpose of inflation and deflation of currency? Is it not desirable that that 2s. ratio should be removed as quickly as possible?—(*Sir Charles Addis.*) That is on the assumption that a gold currency is desirable. Your argument is that the 2s. ratio on the Statute book is preventing the free in-flow of gold for currency purposes.

13,781. Yes—just as in pre-war days when you brought in a sovereign and tendered it you got rupees or notes against it. Is not the fact that we have not got a workable rate of exchange to-day, the same as we had in pre-war days, a factor which ought to be taken into account in suggesting that we should continue going on as we are?—Not unless you rely upon the advantage of gold as currency—an advantage which I do not admit. As I understand it at present, there is nothing whatever to prevent the free inflow of gold at the current rates of exchange.

13,782. As a commodity?—And its purchase in the market. The only difference is that in your supposition it would be sold by the Government. Is there any real difference? What difference does it make if I, as a native, can go into the market and purchase so much gold from a bullion merchant at the rate of 1s. 6d., or if I am able to go to the Mint and do so.

13,783. It is the difference between what the conditions are now and what they were in pre-war days.—I submit that the difference is of no practical importance.

13,784. Therefore it is immaterial in your opinion whether the 2s. ratio should remain on the Statute Book or not?—It is not desirable that it should remain a moment longer than is necessary, but it would be very undesirable to remove it prematurely and at the cost of too great a sacrifice.

13,785. As regards the question of internal prices, I wonder what greater relation of internal prices to each other as between the different countries is required than what is the case at present. I have in my hand the index numbers of wholesale prices in India and in foreign countries, compiled by the Labour Office in Bombay. Will you take a note of these, Sir Charles? I will take the figures for October-November of last year. They show the index number of wholesale prices at 158 in Bombay; at 159 in China; at 155 in the United Kingdom; at 155 in the Netherlands; at 148 in Sweden; at 157 in Canada and at 158 in the United States. Does not that point to a suitable time for stabilising Indian exchange in relation to the other gold standard countries?—It does, if you are satisfied that the prices in the other countries have reached the point of equilibrium. It is that which I doubted, and the reasons I gave for doubting it were in the first place that some of the principal countries have not yet decided at what rate they are going to stabilise their exchanges.

13,786. I am giving you countries which have stabilised, namely, the United States; Canada, which is practically on a gold standard; Sweden, which is on a gold standard, Norway, which is on a gold standard; and the Netherlands, which is on a gold standard. I have given you all those countries. Their prices bear a strict relation to the Indian prices. Do not they point to this being a suitable time for stabilising Indian internal prices in relation to the prices ruling in other gold standard countries?—I think, with submission, you have not quite got the point of the argument. The argument is that those countries are prepared to meet in concert, within a reasonable time, under the resolutions passed at the general conference, for the purpose of stabilising the prices of Europe. To a certain extent these may be determined, or at least may be affected by the rates at which the countries, which have not yet stabilised, fix their exchanges—Italy, France and Belgium; I leave Russia out of account for the moment, important though she is. The argument merely amounted to this—that it would probably be more prudent to wait until that point had been decided before fixing the relation of your Indian prices. It does not go further than that. If you think that those prices are stabilised already, and that they are not likely to be affected, then, so far, my argument would be weakened. I am not prepared to say that I think they will be altered; I say there is a risk of it. Unless there are very strong compensating advantages, I see no great advantage in running that risk. I do not put it higher than that.

13,787. I assume that at this Conference you propose having India represented?—Yes.

13,788. Is there any reason to believe that the prices will vary greatly even if Belgium, Italy and France are brought into this Conference, and they stabilise round about where prices are just now? Would the prices be any different in the gold standard countries?—I do not quite catch your question.

13,789. Supposing you have the Conference this year, and supposing you tell Belgium to stabilise at 120, and she could do it; and supposing you tell France to stabilise round about 140; is it likely that that is going to vary prices very much in the gold standard countries from what they are at the present time?—A good deal will depend on the wisdom with which it is done.

13,790. But in the majority of these countries it is already done. Only one or two countries are left to do it. You suggest that India, because these one or two countries have not come in, must still stay out?—I think perhaps the difference between us is one of degree. If you say that Italy, France, Belgium and Russia are of no great account, then no doubt my argument is a weak one. If you think they are of some importance——

13,791. Do these particular countries count more in the eyes of India than the countries who have already got on to the gold standard, and with whose internal prices she is more or less in relation now?—That would be determined a good deal by a consideration as to how far the trade is European and how far it is American.

13,792. You may take it from me that India's trade is largely with the countries who have already stabilised. If so, will you admit that it would be advisable that India should stabilise as early as possible?—I have never denied that she should stabilise as early as possible. My contention is that she should wait for the proper moment to do so. The difference between us seems to be as to whether that proper moment has arrived or not. There is a good deal to be said for both sides, but I think the

balance hangs rather on the side of waiting. Obviously in your opinion the balance weighs the other way.

13,793. I am not venturing to make any suggestion.—I infer from your questions that you are of the opinion that it is not necessary to wait, and it is from that, that I differ.

13,794. I gather from what Mr. Montagu Norman said that the ultimate aim of all the countries is to get back to a gold standard. (*Mr. Montagu Norman.*) Yes.

13,795. India in pre-war days was on the gold exchange standard, and India now thinks, rightly or wrongly, that she can go back on to a gold standard ?—Are you speaking of a gold circulation when you say "a gold standard" ?

13,796. I was using your very words.—When I was talking about the object of this Memorandum, it was a gold circulation. When I was talking about my discussions with various European countries and others, I intended by " a gold standard " to imply that the security behind their note issues would gradually change from bills of exchange and valuta to gold.

13,797. India could have a gold standard the same as you have at the moment, without having gold currency actually in circulation?—In India?

13,798. Yes.—That is to say, that the security for your note issue might be considerably in gold?

13,799. Yes.—That I should hope would happen.

13,800. In view of the fact that the Central banks of Europe since the war have increased their gold reserves by nearly 200 millions, and that the banks in the United States of America have increased theirs by many more millions, is it not a natural desire on the part of India to increase her gold standard reserves in gold instead of in securities ?—I did not understand that was the question before me. I understood the question before me was whether India should have a gold circulation, and you put a further question.

13,801. The position is complicated, if I may say so, by the fact that you have had a particular scheme in front of you. In dealing with that particular scheme you said in your evidence that the ultimate aim of all the countries was to get off the gold exchange standard and get on to the gold standard as soon as possible ?—Over a series of years.

13,802. Then you explained what you meant by a gold standard—namely, that there should be gold as a backing to the notes instead of securities. I say that, having seen during recent years nearly 200 millions increase in the gold reserves in Europe, and probably 500 or 600 millions increase in the reserves of the United States of America, is it not a natural desire on the part of India that some scheme should be devised whereby India should hold gold in reserve also ?—Other than the scheme which I have had before me ?

13,803. Yes.—I should like very much to see—though I have not considered it—a gradual replacement of securities by gold behind the circulation. Does that answer your question ?

13,804. It does. (*Sir Charles Addis.*) I think it is a natural desire, but I do not think it is a wise one. I do not myself see that securities held in this country are, in view of the purpose for which they are required, a less advantageous security for India than the metal itself. (*Mr. Montagu Norman.*) I think it is a natural desire. I think it is rather the movement of the day. Everybody is doing it, and we must recognise it as such, and for my own part I do.

13,805. As a matter of fact, while it is the present desire of the Continental Central banks to have gold chiefly in reserve as backing, did not Holland quite recently find it was getting so much gold that it tried to put it into circulation again, and did not Switzerland find the same thing ?—Not Switzerland. Holland is in a peculiar position, and I think may be classed more with the United States than any other country in the world. My recollection is that last autumn Holland became very rich owing to a certain commodity which she received from the Far East, and she at that time got so much gold in payment that she did not know what to do with part of it, and there was a tendency for some of it to go into circulation—a very small amount ; it did not amount to anything, and it was purely experimental, I think.

13,806. Is there very much difference between Holland getting paid for her commodities, to which you refer, in gold, and desiring to put it into currency, and India getting paid for her commodities in gold, and also desiring to put it into currency ?—Yes, I think there is a great deal of difference, if I may say so. Holland was, as it were, sitting quiet and receiving this amount, mainly on Java account probable, and was not at all anxious to put gold into circulation. She adopted purely a passive attitude acting on behalf of her Far Eastern friends. There was no question of silver or of borrowing. She was paying off everything she could. That is where the great difference between India and Holland seems to me to lie in this respect. In order to carry this operation through India would need to borrow X millions of gold, and to dispose of X ounces of silver, and for that purpose she would require the co-operation of certainly two countries—the United States and Great Britain.

13,807. I agree, but if some scheme could be devised which would avoid the selling of all this silver, to which so strong an exception has been taken; and if some scheme could be devised which would avoid the necessity for buying at home 100 millions sterling of gold, and if a scheme could be devised whereby a limited amount of currency might go into circulation, as has been the case in Holland, then you would be prepared to consider that scheme more favourably than the particular scheme which is now in front of you?—I certainly should, but I do not think I could ever consider favourably the circulation part of it, which I believe to be a mistake at present; but with the remainder of it, although hypothetically stated, I should agree.

13,808. (*Sir Maneckji Dadabhoy*). Three important arguments emerge from your very valuable evidence to-day. The first is that the position and policy of the Bank will have to be altered in case India goes in for a gold standard ?—You mean the policy of the Bank of England ?

13,809. Yes. The second is that there will be economic disturbances in silver producing countries and also in Western European countries, and the third is the practical impossibility of finding credits for the purchase of this huge amount of gold to supply India's want. I think I have correctly summarised your main arguments in connection with this matter. I will deal with the last point first, as I think further light is necessary on it. In the matter of credits you have stated that the two lending countries are Great Britain and the United States, and that it would be impossible to float any loans without the good-will and co-operation of these countries. You think it is not in their personal interests to extend any help, and although personally you are in great sympathy with India's project, you find the obstacles so insuperable that you advise that India should not go in for a gold currency, but a gold standard without gold currency. In considering this question of credits, have you taken into consideration the point that these credits will not come in at the initial stage of the scheme, but will come in at a later stage ?—I understand that a part of the credits are likely to be needed early. I believe that the whole operation of the scheme before me will come more quickly than is expected.

13,810. I think it will come perhaps somewhat more quickly than is expected; but in the first instance,

in perfecting and maturing and organising the scheme, India will fall back on its reserves both in the gold standard and in the paper currency, and also on the large private reserves which she has in the shape of gold bullion. If you take that point into consideration, do you think the impediment is so great as you have stated?—I still think that to raise credits in the early stages, as is suggested in this scheme, is a very serious drawback, if not an obstacle to the scheme, for the reasons I have given. The fact that the whole of the amount is not needed at the beginning, but that part of it may be deferred until a later stage, does not affect the argument, for the reason you have stated yourself, namely, that the whole thing would be likely to come more quickly than is expected.

13,811. I did not say that. The scheme is to be spread over a period of ten years. The financial part of the Government of India's scheme is to be spread over a period of ten years. If in the initial stages—for the first three years—we fall back on our own gold reserves, and also on the large private reserves of bullion which are collected in India and which must come out, is there any serious impediment then?—Yes, I think there is a serious impediment, if your scheme requires that credits should be raised.

13,812. If you modify the scheme by stating that credits will not be raised for the first three or four years, would you still object?—Yes, I would.

13,813. As to the credits, you say it would be difficult to get the co-operation of the United States, and also that it would be difficult to get loans in this country. Will you tell me the figures for the amounts of foreign loans which have been raised in England year by year during the last five years—loans raised for the Dominions and other parts of the Empire?—I cannot remember them, but large sums have been raised.

13,814. Very large sums have been raised, in fact, millions during the last five years?—Yes, millions certainly.

13,815. Every year those large loans still continue. Despite the adverse circumstances, both political and financial, in this country, still England is in a position to assist the Dominions and other parts of the Empire with extensive financial accommodation?—Yes.

13,816. If accommodation could be found for foreign countries and the Dominions, do you seriously consider there would be any difficulty in obtaining a loan for India on good securities—on the securities of the revenues of the Government of India?—I think that India could come into this market and raise money at any time for a purpose which commended itself to those who were to lend it; but I think it would be difficult for India or for any other country to come into this market and raise money for the purpose of putting gold into circulation in India, just as it would be for any other country.

13,817. So you think it is the purpose of it which will frustrate the scheme?—The purpose and the silver.

13,818. I am coming to the silver presently. You think in the initial stage it is the purpose which will frustrate these loans?—The purpose of these loans being to remove gold from one place and put it into circulation in India.

13,819. Let us look for illustration to other countries. When Germany and France demonetised silver and went in for gold they had to raise credits. Were their credits affected then by the mere fact that they were introducing a new form of currency which was detrimental to the interests of England and America? Did the mere fact that Germany went in for gold prevent her raising credits in the European markets at that time?—I do not remember. I do not even know the facts. (*Sir Charles Addis.*) If I may be allowed to say a word here, the circumstances are not the same in the two cases, especially as regards our experience of the disastrous consequences which followed the monetary action taken by Germany in 1871.

13,820. You mean subsequent events have thrown light on it?—They have powerfully influenced the economic opinion of this country.

13,821. (*Chairman.*) Will you explain what the consequences were?—The effect upon world prices of a fall of 40 per cent. from 1874 to 1896. It was the effect upon world prices which was so disastrous in my judgment—the effect produced by the gold accumulated by Germany and the sale of silver.

13,822. (*Sir Maneckji Dadabhoy.*) I want to keep the question of world prices separate. At present I am on the question of credits?—With respect, I was replying to a question by the Chairman.

13,823. (*Chairman.*) Sir Charles's answer is that the effect of that operation was a bad one on world prices?—I think the word "disastrous" is not too strong an adjective to apply.

13,824. (*Sir Maneckji Dadabhoy.*) In connnection with this argument, Mr. Montagu Norman, you told us that the accumulations of gold in America would take ten years to absorb in ordinary circumstances?—That is an estimate; nobody knows.

13,825. And you thought, therefore, that for this reason America would not favour the idea both of loans and of parting with the gold. If the absorption took place so rapidly the price of gold would appreciate, would it not?—I do not remember having said that.

13,826. No, but I ask you it. If the absorption took place so rapidly the price of gold would appreciate, would it not?—(*Sir Charles Addis.*) In so far as the gold is withdrawn from the sterile hoards of America, prices would not be affected in the way you suggest. In so far as it is drawn from the countries where it is already performing a monetary function, prices would be affected.

13,827. But economic production would be larger. People would go in for more intensive operations in the matter of producing gold and also of raising gold from low grade ores, which they have at present abandoned temporarily?—If the value of gold appreciated, then there would be an increased incentive to deal with low grade ores.

13,828. And there would be an increased incentive for increased production?—Yes, I agree to that.

13,829. So the real apprehension of the United States regarding shortage of gold supply would be obviated by an increased production, would it not?—Increased production would obviously increase the supply *pro tanto*.

13,830. And there would be no real and tangible apprehension regarding the shortage of the supply?—That is another matter. I do not think your conclusion is justified by your premises. You put certain hypotheses with regard to increased production, and the answer is that *if* that increased production took place there would be an increase in the supply; but there is no admission there that such an event *will* take place. (*Mr. Montagu Norman.*) If you will allow me to interpose for a moment here, I did not intend to convey to you that there was any unwillingness at the present time on the part of the United States to part with gold taken in vacuo—none at all.

13,831. If she finds it to her advantage to part with gold, if gold appreciates on the introduction of the gold standard in India, and if she finds it to her advantage to dislodge all that gold, she will do it?—Of course. (*Sir Charles Addis.*) If gold were the only thing to consider it would be greatly to her advantage.

13,832. So after all this apprehension is largely conjectural—that America in her self-interest will not help India raising the credits for the purpose of meeting the gold currency?—(*Mr. Montagu Norman.*) No, I do not think it is conjectural at all. I think it is inherent in this scheme. That is the result of the best inquiries I have been able to make.

13,833. (*Chairman.*) That is because of the silver aspect of the scheme.

13,834. (*Sir Maneckji Dadabhoy.*) Yes, I am coming now to the silver aspect. I will deal now with the

silver aspect of the case. You base your argument on the fact that the silver conditions in the United States will be affected by a large quantity of silver being dislodged for the purposes of sales, and that it will affect the silver industry, which is practically confined to the United States at present. You apprehend that there will be a serious reduction in the price of silver. I am not at present dealing with the case of China to which you referred. I will deal with India on its own merits. You apprehend that large quantities of silver will necessarily go out from India when a gold currency comes into operation, and that the price will considerably depreciate. Let us deal with the situation. We have been informed by credible witnesses that the rupees in circulation range between 250 and 300 crores. You are aware that India has a population of nearly 320 millions; in fact one-fifth of the human race. Do not you think that in a country with such a vast population the need for some form of subsidiary currency will always exist? Surely everybody could not have gold, and therefore silver would necessarily form an important item for the purpose of ordinary barter and exchange?—I think currency would always be needed in India.

13,835. Do you really think that, with 250 crores spread over a population of 320 million people, enough silver would go out into the market to considerably reduce prices?—I am going entirely on the figures which have been put before me, which show that three years world supply would be for sale as the result of this operation.

13,836. It is on that assumption that your answer is based?—It is on the information contained in these papers.

13,837. But you do attach importance to the fact that a large quantity of silver will be required and will act as a subsidiary currency for many years to come even with the introduction of a gold currency? —I believe that has all been taken into account in these figures.

13,838. I will ask you to eliminate from your consideration those figures for the moment. I ask you, on tho general basis which I have put before you, whether you still apprehend that silver would considerably depreciate in value?—From my whole consideration of the subject I am driven to the conclusion that it would greatly depreciate, but I have made no independent study of the situation.

13,839. Sir Charles, you have been in India. You know the habits, conditions and the traditions of the people. They like to hoard silver, and their marriage customs and other domestic events make it obligatory on them to make extensive presents in silver. Do not you think large quantities of silver will always be required for domestic purposes, and that if silver goes down in price there is little liklihood of its export, but that it will be retained internally for domestic purposes?—(*Sir Charles Addis.*) It is many years since I left India, and I understand that during the time that has elapsed—more than a generation—the habits of the Indian people have changed considerably with regard to their currency. Note issues, for instance, which would have been impossible in my day, are becoming a matter of common form. Now if you introduce the use of currency gold into India, I am not quite clear as to how far the use of notes based upon gold might extend, with the result that the silver in your reserves would be dislodged. There might also be a compensating decrease in the silver circulation. For the rest I share your opinion that silver is never likely to go out of use in India.

13,840. There is less likelihood of silver depreciating?—That is so, but you have to take account of the psychological effects of monetary changes. The announcement that the policy of the Government was to put gold into circulation would lead a number of people to believe that a deadly blow was aimed at silver. The belief would be widely shared outside of India in spite of the internal demand to which you refer. For a time it might knock the bottom out of silver. The fall might be severe.

13,841. Would it be gradual?—No, I think it would be immediate. If you were to announce to-morrow that it was your intention to reduce the legal tender capacity of the rupee to 50, the result would be an immediate fall in the world price of silver.

13,842. How do you reconcile that with your statement that people in India for generations past have regarded their stores of silver rupees as stores of value?—You have to consider an element in the population of India, numerically insignificant, but important on account of its wealth. Gold is a more desirable form of hoard than silver, and always has been. The poor man does not hoard silver because he prefers it to gold, but because he is so poor.

13,843. You have also stated, in discussing what would be the effect on the silver market of the world, that only 30 per cent. of precious metal ores will be affected. 70 per cent. you give to the base ores. In the 30 per cent. of the special metals which will be affected all the world over, India's share would be considerably small, would it not?—You mean the effect upon the base metal mines will not be great.

13,844. I refer to the 30 per cent.?—I do not think that. (*Mr. Montagu Norman.*) I think it will be enormous.—(*Sir Charles Addis.*) Where you have a joint product the effect of the shutting down of other mines might mitigate the effect. But the effect would be felt in copper as well as in silver. The composite product per unit of the silver and copper extracted from the copper mine would be reduced, and the cost of production of copper increased.

13,845. Hitherto, when Indian loans have been floated in this country in sterling, there have been no difficulties. Even the last loan was subscribed, I understand, in a few hours. You have stated that the purpose will prevent subscribers supporting new credits. Am I to understand from that that both the United States and Great Britain will stoop to the frustration of these loans merely because India wishes to raise herself to the same level as the Western nations?—(*Mr. Montagu Norman.*) I do not think you are to understand that at all, nor did I intend to imply any such thing. I have not the least doubt that if India wishes to raise a loan to-morrow or the next day she will be able to do so, and every assistance will be given; but in these matters I think we have to endeavour to work by co-operation and good understanding. I trust very much that we here are going to have the pleasure of continuing to co-operate with India in such matters as these. What we are considering now is the question of joint interest, of mutual interest. Is it wise for India now, having regard not only to her position but to the position of the world of which she is a part, to carry out this scheme? That is the point. The carrying out of this scheme, through the silver side of it in the main, produces, as I have been informed, serious difficulties. In regard to the credits needed for it, I have told you my expectations. For the reasons given it would be extremely difficult to obtain such credits in the United States. I trust very much that India and all those desirous of promoting the common good, including that of India, will see that to force the question of credits for this purpose is neither to her interests nor to ours. Is not that a fair way of putting it?

13,846. I put it in this way . . . I am not seeking merely to oppose. It is obviously for India to decide what she is going to do, and for us to consider in what way and to what extent we can co-operate with her, but India will recognise that we are obliged to approach these questions from certain special angles, and I trust that she and her representatives will in the course of their deliberations give consideration to the matter as viewed from those angles.

13,847. You say " in our joint interests ". Is it not in the interests of Great Britain that India's currency policy should be put on a firm basis?—Does not the present exchange policy considerably hit Manchester

and other parts of Great Britain in the matter of trade with India? It is not therefore necessary in the interests of England that India should be placed on the same basis as England in order that trade between the two countries can be carried on with mutual advantage?—I certainly think it is to the advantage of India to have her currency on a stable basis—certainly.

(*The witnesses withdrew.*)

# FORTY-SECOND DAY.

## Wednesday, 14th April, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGER } (*Secretaries*).

Mr. CHARLES NICOLL, called and examined.

13,848. (*Chairman.*) You have been kind enough to come and assist us this morning on the subject matter of our enquiry. You are General Manager of the National Bank of India, and I understand that the memorandum* with which you have been good enough to supply us expresses the views of the Eastern Exchange Banks?—The British Exchange Banks.

13,849. There is an Association of those Banks, is there?—Yes.

13,850. The membership of which is set out in a note to your memorandum?—Yes.

13,851. So we may understand that the memorandum is supported by the Association with that membership?—Yes, that is so.

13,852. I just want to ask you one or two questions in order to elucidate the principal headings of your evidence. In paragraph 2 you say, "We are in favour of a gold standard, i.e., that it is put on the Statute Book that the Government is bound to buy gold at a rate to be fixed upon (this will depend on the basis at which the rupee is fixed) and to sell gold for export (or the equivalent in gold funds)." Do you mean that it would be at the option of the currency authority whether gold or exchange should be sold; or are you referring to them as alternative systems under one of which the obligation would be to sell gold, and under the other of which the obligation would be to sell exchange?—I think that would be at the option of the Indian Government. If they have funds available on this side those funds might be utilised for payment in what is commonly known as Reverse Councils.

13,853. Then you are not recommending that there should be any absolute obligation on the part of the currency authority to sell gold metal?—No, but they would either have to sell gold or give the equivalent in London.

13,854. How would you define the obligation to sell exchange? Would it be an obligation to sell sterling only, or exchange upon other gold centres?—I should say an obligation to sell against funds in London.

13,855. London only?—Yes.

13,856. In your opinion would this operate in practice as a gold standard or as a sterling exchange standard? What would be the effect of it?—It is difficult to differentiate between a gold exchange standard and a gold standard.

13,857. What would happen, for instance, if the pound sterling wandered from the gold sovereign?—If the Exchange Banks wanted to send gold to India they would have to pay the price for it—whatever price was ruling.

13,858. It would be in effect pegging the rupee to the pound sterling, would it not, rather than to gold?—No; I think it would peg it to gold. If banks wanted to send funds to India they would have to buy gold at the market rate.

13,859. But supposing the pound sterling were cheaper than the gold sovereign, and the Indian currency authority, at its option, could supply that cheaper—?—You are talking of gold for export?

13,860. Yes. I ask you, because a great deal of evidence which we have taken in India is directed against a sterling exchange standard as being a standard which would not satisfy Indian public opinion, and is insistent upon a definite gold standard in which the rupee is pegged to gold. Supposing there were to be a strong public opinion in India of that nature, would that make any difference to your allowance of this option?—I think it would.

13,861. Under those conditions perhaps you would be more inclined to say that the ultimate obligation should be to sell gold for export?—Yes, I think so.

13,862. Do you believe there are any practical difficulties from the banker's point of view in ensuring that gold so sold is exported? It is suggested to us that this is a condition which it may be practically difficult to enforce?—I think some arrangement could be made to ensure that the gold given out would be exported. I do not know what the method would be exactly, but I think it is quite feasible to follow that gold and to see that it is used for the purpose for which it was given out.

13,863. You have not, perhaps, given any consideration to what the actual conditions or regulations for practical safeguards should be?—No, but I do not think there could be any difficulty in following up that gold and seeing that it was exported. It would be given out in considerable amounts.

* Appendix 84.

13,864. You would have some minimum amount?—Yes.

13,865. What minimum have you in mind?—I should think perhaps £20,000.

13,866. Your Association emphasizes the Government, because they are of the opinion that for the present there is no other authority to whom those duties could legitimately be delegated. I understand from that that you are adverse to the delegation of such duties to the Imperial Bank of India?—No, I cannot say that, because I am ignorant of what the status of the Imperial Bank of India is to be in future.

13,867. Let us take it in steps. You say the present Imperial Bank of India?—Yes. Under present conditions we are in favour of the Government retaining control of the paper currency.

13,868. You say that under present conditions you are in favour of the Government retaining control of the paper currency?—Yes.

13,869. May I ask whether you can expand that and tell us what considerations have led you to that opinion?—We think that the obligation for redeeming the currency notes should be on the Government of India, and for that reason we think the control should remain in the hands of the Government of India; that is, that the people who give the guarantee should have the control.

13,870. That reason would apply, whatever the status of the Imperial Bank of India was, would it not?—No. It is rather hypothetical. I do not know.

13,871. You tell me that you think the obligation to redeem the notes should be that of the Government?—Yes.

13,872. And I understand that that is because you consider that the full authority of the Government should be behind the note?—Yes.

13,873. It occurred to me that that was because you thought that the Indian people would have more confidence in the note?—Yes, that is so.

13,874. And it would follow from that, would it not, that that would be so, whatever the status of the Imperial Bank was? If your answer is no, then I will go on and ask you what change in status you deem desirable?—I can only say that under present conditions we think the notes ought to remain an obligation of the Government of India, and that the Government should maintain control of the note issue.

13,875. Let me put to you an hypothesis. Supposing there were a true Central Bank in India—that is, a Central Bank constituted upon a similar basis to that of the Central Banks which are familiar to us in European systems, would it then be your opinion that the duties in connection with and the control of the paper currency should be delegated to that true Central Bank?—I am not very familiar with the functions and the constitution of Central Banks. Before I could say that the control of the note issue should pass to a Central Bank, and should be an obligation of that particular Bank, I should want to know something about the constitution and functions of it.

13,876. To what elements in the constitution of the Central Bank would you look as relevant to the question as to whether it should have control of the paper currency or not? What would your requirements be as regards the constitution?—My requirements would be that any obligation of the Central Bank would be an obligation of the Government. I have not given this matter on which you are interrogating me very careful study.

13,877. Do not let me press you on anything to which you have not turned your mind?—There was a meeting of the banks which are named here, but this question of a Central Bank was not discussed at all, and I cannot speak with any authority on it.

13,878. Very well. Perhaps we can only say upon this that you would have to reserve your opinion as to whether such a bank should have control of the currency or not until you could give more consideration to the question of the constitution of that Bank?—Or had some information about what is proposed as regards the constitution of the bank.

13,879. Precisely; but I am very anxious to get an accurate idea of the weight of your evidence, which has produced upon my mind this impression—you will tell me if it is a correct one. You would consider it an open question as to whether the control of the paper currency should be transferred to a Central Bank, to be considered in the light of what the Central Bank is?—Yes.

13,880. And that your recommendation, that it shall be a Government Note, is not an absolute one that must hold whatever the nature of a Central Bank may be?—As I see things at present, unless the obligations of the Central Bank were guaranteed by the Government of India, I do not think I would be in favour of any change from the present procedure. The notes should remain an obligation of the Government.

13,881. You say "as at present." Are you referring to the general conditions of India, or are you referring to the present constitution of the Imperial Bank?—I am only thinking of what the result would be if the obligation for the redemption of the notes passed from the Government as at present to the Imperial Bank or to any other institution. I think it would interfere very greatly with the circulation of the currency notes.

13,882. Passing on to your next paragraph, as to Council Bills, you say they should be put up for public tender in India and London. Will you expand that a little by explaining just what mechanism you are contemplating? Would the Council Bills be put up for public tender in India?—I think most of the Banks would prefer to have Council Bills sold on the old system at home, but I believe there is some, perhaps sentimental, reason (I do not know) why part at least of the remittances from India should be arranged in India. It might be feasible to arrange that part should be sold on the old method of Council Bills, and part by remittances from India.

13,883. Have you any objections to the recently-introduced system of purchase of sterling in India?—Yes. I think the method is not quite what it should be. I do not think the sale of those remittances should be arranged through exchange brokers in India.

13,884. You would eliminate the broker?—I would eliminate the broker altogether

13,885. That is a matter on which I must confess extreme ignorance. What harm does the broker do?—It makes it more expensive to the Banks for one thing, and I think the Banks should be allowed to go direct and get their remittances from the Government.

13,886. Are not they allowed to do that now?—In some cases I believe they do allow it. In other cases it is given out by the Imperial Bank to brokers to arrange the best rate they can, and the broker may have some other business to fit in along with it, which is rather against the interests of the Banks. I am speaking personally now.

13,887. I am wondering whether this is not a matter within the Banks' own hands for remedy?—No. I understand the system is that when the Imperial Bank wants to remit on account of the Government, they give out £100,000 to one broker, £200,000 to another broker and £100,000 to another. The brokers go round the market and see whether they can place it. The Banks pay them a brokerage which is quite unnecessary. It is more expensive to the Banks than remitting to India by means of Council Bills.

13,888. Is it the idea that this gives the broker some opportunity for undue discrimination?—It might be that. It provides him with a good income.

13,889. In practice, are there complaints of discrimination?—I cannot say that I have heard personally any complaints about discrimination, but I can quite understand that they might very readily arise.

13,890. We may recognise, I suppose, that this is not an objection inherent in the method?—Oh, no.

It is really a matter of departmental arrangement on the other side I should think—in India. I do not think it is a matter for the Commission to take up.

13,891. Can you give us the advantage of your very practical knowledge on this question of tendering? Do you see any particular advantage in favour of one or the other alternative, to wit, tenders in India or in London?—I think tendering in London is more convenient, and if it was confined to London altogether it would be still more convenient. It was only what I may call a sentimental influence which brought about any tendering in India at all.

13,892. What is your opinion as to the practicability of a tendering system in India? We have had some evidence both ways—both emphasising the facility and the difficulty of carrying out a system of tenders for the purchase of sterling?—There is one objection to the Government buying remittances in India for remittance to London, namely, that they pay money out in India before they get it at home. Therefore there must be some discrimination as to whom they are dealing with. On this side the Secretary of State gets his money before he pays it out in India.

13,893. The implication is that it requires a more vigilant eye as to the credit of the other party, in India?—Yes, that is so.

13,894. Do you know whether that has been found to create any difficulty as to obtaining an adequate market,—an adequate list?—No, that has not come before me.

13,895. But as regards the physical possibility of getting in tenders and making allotments, would there be any difficulty under Indian conditions?—I do not think so. It would not be so convenient as tendering at home, but any difficulty I think would be easily overcome.

13,896. Proceeding to your paragraph 4, you say: "No additional currency should be issued that is not covered by the actual tender of gold coin or bullion." What would be your reply to the criticism that such a system would render the Indian currency system unduly inelastic and hamper Indian trade by a restriction of the expansion of currency necessary to meet prosperous times?—I do not quite follow that.

13,897. You say that no additional currency should be issued which is not covered by the actual tender of gold coin or bullion. I was asking what your reply would be to the criticism advanced against that suggestion, namely, that it would render the Indian currency system inelastic, and hamper Indian trade, by making it difficult to expand credit and currency in prosperous times, such as years of good monsoon?—I do not follow that at all. Gold would go to India to be exchanged for Indian currency in payment of produce that was being exported by India. The gold that would be sent out from this side would be to pay for Indian exports.

13,898. How would you provide for the need for seasonal expansion of currency?—More gold would go to India during the export season to provide additional currency.

13,899. But during the seasonal expansion, is not the additional credit and currency required before export to finance the stuff from the field to the port?—Yes, that is so. It would go before the actual export. It would go whilst the crops were being financed. The gold from this side would go to finance crops before shipment.

13,900. How would that operation take place, when the crops have not yet been exported or sold?—Advances are made against produce in course of shipment.

13,901. But who makes the advances?—The banks.

13,902. They would import gold at the beginning of the active season?—To begin with I have no doubt the Imperial Bank and the native banks (who finance the crop very largely; in fact, they do most of the internal finance and banking of India) would finance the crops, to start with anyhow; and as shipments took place the exchange banks would import gold, which would go in payment of further produce. There is always a certain amount of loose cash lying about at the end of the season which is available, to begin with, for financing crops which come down to the coast and which are shipped. In exchange for those shipments gold would be imported.

13,903. Would the gold be imported before the exchange had touched the appropriate gold point, and made it profitable to import?—No.

13,904. Then why should the exchange rise to that point before the sale and shipments begin?—The demand for money and higher rates of interest. If the rate of interest in India is 6 per cent., and it is 4 per cent. here, money would be sent to India.

13,905. The increasing tightness of credit in India would cause a rise of money rates in India?—Yes, and probably a rise of exchange up to the bullion point. In the meantime the Secretary of State would be selling in this country, and that would provide funds.

13,906. It would provide funds, but it would not provide gold?—No, but gold only provides currency. Gold which is shipped to India is exchanged for Indian currency.

13,907. Do you think the rise in money rates in India would be sufficiently prompt, and go sufficiently far year by year, actually to cause an import of gold at the beginning of the active season, enough to provide the demand for additional currency?—It has always been done hitherto.

13,908. Is that so? Have there not been special provisions for providing seasonal increases of currency, and has it not been found increasingly necessary year by year that there shall be a special letting out of the stitches of credit and currency to meet the seasonal demand? There are provisions at present, are there not?—There was a provision for advancing against what we call hundis, which are supposed to be taken in connection with movements of crops to the coast. That has not been availed of this year, because the Indian Government have been buying in India very freely at what is practically the bullion rate of 1/6$\frac{3}{16}$d.

13,909. Is the conclusion at which you would arrive that those provisions are unnecessary?—The hundi provisions?

13,910. Yes?—I should say they are unnecessary, yes.

13,911. In your paragraph No. 6, you say that the legal tender of rupees should not be disturbed. Can you explain that at all? What is the reason for that opinion?—I think that was probably put in in connection with the scheme for a gold currency—that the legal tender should be reduced to five rupees or somthing like that. Full legal tender should not be interfered with. The rupee should remain full legal tender.

13,912. I understand that this opinion expressed in paragraph 6 implies an unfavourable opinion upon the scheme which has been submitted for your consideration?—You mean the gold currency scheme?

13,913. Yes.—Yes, we were against that.

13,914. Can you explain at all the reasons which have led to this expression of opinion?—We thought a gold currency was not a suitable one for India. For one thing the unit would be too big in a country where most of the people are poor. The wealth is in very few hands. Besides that, the huge expense and cost of redeeming the existing rupees would be a very great objection. Again, the cost of maintaining a gold currency would be very huge. Apart from the ordinary wear and tear of a gold currency, which would be very considerable in a country like India, there would be a very great deal of illicit sweating. Light coins would be very much in vogue, and the cost of maintaining the gold currency would be great. Then, again, the present currency is a good one—at least it has proved to be so for many years, and that being so, why make a change?

13,915. What in your opinion would be the effect of depriving the rupee of its status as full legal tender?—That would come in with a gold currency?

13,916. Yes.—I think if gold became currency in India the coin would be too big for the requirements of the people.

13,917. In paragraph 7, stabilisation of the rupee, your Association expresses the opinion that the advantages attending the adoption of the rate of 1s. 6d., which has been the working rate for some time past, outweigh the disadvantages, and consequently they see no objection to stabilising on the basis of 1s. 6d. Can you explain at all the principal considerations which have led you to that opinion?—There have been two rates talked about—1s. 4d. and 1s. 6d., and I do not know that there is any special merit in either of them; but we are at 1s. 6d. now, and going back to 1s. 4d. would lead to very great complications, unless it could be done very gradually, and we do not see a way of getting back to it.

13,918. How would you set out to get back to 1s. 4d.?—It could only be done through the ordinary trade channels. If imports were largely exceeding exports, of course exchange would go down.

13,919. Your final paragraph deals with the matter of gold reserves. As I have understood the weight of your evidence so far, it is directed against a gold currency in circulation as a suitable currency for India?—Yes.

13,920. That creates a little difficulty in my mind, because in your last paragraph it appears to me as if you were contemplating that that should nevertheless be looked upon as a possible future system?—I am afraid that is so.

13,921. And it comes to a head when you say that you advocate a policy which will increase the gold reserves?—The gold reserves should be increased by the gold going to India in payment of exports.

13,922. But if you do not want to have a gold currency why should you take that measure?—After all, very few countries do have a gold currency. There is no gold currency in England; and, as I say, gold currency is such an expensive luxury that I think one is better without it.

13,923. You see my little difficulty, Mr. Nicoll. You pronounce against a gold currency but then you advocate a policy which will increase the gold reserve for the purpose of introducing a gold currency?—Yes, I see.

13,924. I was wondering whether there was any other reason for increasing the gold reserves?—I do not think so.

13,925. You cannot relieve me from that dilemma at all?—There is no other reason. There has been a good deal of talk about gold for India, and this may have been put in for some sentimental reason.

13,926. I must not press you unduly, but it is an expensive policy to increase gold reserves beyond what is necessary for the stable basis of the currency, is it not?—Yes, it would be much better if those reserves were earning interest. At the same time, there has been a good deal of talk in India about building up gold reserves—in fact of transferring funds which are held in this country to India in gold. Those funds belong to the people of India, and if they think they should be held in India I do not see that one can argue very much against it.

13,927. Have you any information as to what the amount of gold reserve should be before a gold currency could be introduced—what gold you would have to have in reserve?—A very large amount. If you had a gold currency—if notes could be exchanged for gold—I think the note issue would diminish very largely.

13,928. You are of opinion that the interchangeability of notes for gold would lead to a large reduction in the note circulation?—Yes, that is so.

13,929. Is that based upon any actual experience of the past?—No. There has been nothing to guide one. It is only what one knows of the hunger of the people of India for gold. They would rather have gold than currency notes.

13,930. You recommend that council bills should be sold only to the actual extent of Government's published Budget requirements?—Yes.

13,931. I wanted to see just how far that recommendation carried us. Could we read it in a broad sense that over a reasonable period Government's requirements and remittances should balance, and that remittances through the Government balance should not be used for the purpose of controlling exchange?—I think the idea in restricting the remittances of the Government of India to Budget requirements—home requirements—was that it would be an incentive for gold to go to India and increase the gold reserves of India against the Note issue.

13,932. But would you carry the restriction so far as to prevent the Government, under favourable conditions, anticipating its requirements in a manner which might seem prudent?—You mean so much only should be allotted every week?

13,933. Yes?—Oh no. I think when the active export season starts, or when they are financing the crops, they should increase the amount of council bills at that period, or perhaps withdraw them altogether at other periods.

13,934. That is to say, they should take advantage of the market, as a reasonable business man would?—Exactly. When the exchange was high—which would very likely synchronise with the export season, when money was wanted, then they would sell their council bills freely. In the monsoon period, when money was not wanted, and the crops were growing before the harvest time, then they could reduce their drawings.

13,935. So that the weight of the recommendation is this—that the Government transactions should cease to be made use of for the purpose of controlling exchange: they should only be made use of actually with the single object of meeting Government's requirements?—I think so.

13,936. (*Sir Reginald Mant.*) In paragraph 2 of your memorandum you recommend that Government should be bound to sell gold for export or the equivalent in gold funds. When the Chairman asked you what would happen if sterling broke away from gold you modified that recommendation I think?—Yes.

13,937. And you said that you would make the obligation to sell gold only?—Yes.

13,938. Because of the difficulty of defining the equivalent rate of sterling?—Yes.

13,939. Could not you get over that difficulty by requiring the Government to sell gold or gold exchange at par?—What do you call par? They would only sell at the bullion point. That is, if your exchange was 1s. 4d., they would sell, say, at 1s. $3\frac{13}{16}$d.—the $\frac{3}{16}$ being estimated to cover the shipping charges.

13,940. If sterling was depreciated they would have to sell more sterling to make it equivalent to gold. Would it not be possible to arrange that?—Yes, I suppose it would, but then it would be a very fluctuating quantity. You have seen the fluctuations in the American exchange of recent years, and I do not see how you are quite to arrive at the amount of sterling that would be necessary to equal the amount of gold. It would be rather difficult to fix the amount of sterling that would be required.

13,941. It would vary, of course?—It would vary with the rate of exchange. I think it might be feasible.

13,942. It would not be necessary to confine yourself to gold, but it would be possible still to sell gold exchange although sterling had depreciated?—Yes, I think that might be possible.

13,943. Turning to paragraph 4, where you say that no additional currency should be issued that is not covered by the actual tender of gold coin or bullion in India and/or in London ear-marked for shipment to India, would not that result in your getting too much gold?—I do not think so. I think gold would only go to India to pay for credit requirements—to pay for exports.

13,944. But you said in reply to the Chairman that it was unnecessary to pile up very large gold re-

serves, whereas this policy would eventually have that result?—Did I say that?

13,945. I understood you to say so—that you thought it would be very expensive?—No ; the gold currency would be very expensive. Perhaps I made a remark that it was expensive to have a large accumulation of gold when that gold could very well be invested in securities. I may have said that, but then, as I say, this money belongs to the people of India, and if they are desirous of seeing these large reserves of gold I do not see why they should not have them.

13,946. Your scheme makes no provision for investing any part of that gold in sterling investments?—No.

13,947. And you do not think it is desirable to invest any of it?—I think it is desirable to have part of the reserves of the paper currency in British Government securities.

13,948. This recommendation in paragraph 4 would not allow of that. The gold must either be tendered in India or ear-marked in London for shipment to India?—You can only get funds for investment in this country if the Secretary of State sells largely beyond his Budget requirements. That is the only way that funds can be laid down in this country.

13,949. But you could invest this gold which you suggest should be ear-marked in London for shipment to India. If necessary you could invest it?—That question of ear-marking gold was simply raised by one of the members of the Association, who said "Suppose the banks at any time wanted to get money there in a hurry, and the Secretary of State was not selling council bills at that time, we would have to ship gold, and we would have to wait for about a month before we could get the proceeds of it." This clause about ear-marking was put in to meet the requirements of any bank who wanted money urgently in India, and the method that might be adopted would be by passing the bills of lading through the Imperial Bank and getting advances straight away in India. But that does not meet your contention, I can see.

13,950, No, it does not.—If the people of India want to have gold reserves they cannot have their money here as well. They must either have it here, or they must have it in India; and I say it is much more expensive to have those gold reserves lying idle without earning anything. I agree with you. But you cannot have it both ways. If they want that gold in India they can have it, but they cannot have it earning interest on this side as well.

13,951. I understand that your recommendation is based not on considerations of what is best and most economical for India, but on the sentimental desire of India to possess a lot of gold?—Yes, there is a good deal of that in it.

13,952. Under this scheme, all further additions to currency in the busy season would be provided by imports of gold?—Yes, and the Secretary of State would probably sell more freely in the busy season than he would do in the monsoon.

13,953. How would the superflous currency be drawn off in the slack season? Do you contemplate that there would be a considerable export of gold from India in the slack season?—I do not think so. I think India will always export more than she will import, even in bad times.

13,954. But, still, there is a larger demand for currency in India at certain periods of the year?—Yes. There always has been and always will be.

13,955. And if the gold was not to be exported then there would be a redundancy of currency during the slack season. How would you provide for withdrawing that currency?—I do not know that it would require to be withdrawn. Why should it be withdrawn?

13,956. Because it is redundant?—It always has been redundant in the slack season.

13,957. But do not you regard that as a drawback to the system?—If it was redundant to the extent of depreciating exchange, that currency would be withdrawn by reverse councils.

13,958. That is coming back to the original scheme of selling sterling exchange?—Yes.

13,959. You have reverted to that?—Either that, or the export of gold.

13,960. You think that the export of gold would provide a sufficient means of drawing off the redundant currency?—I think so.

13,961. (*Sir Purshotamdas Thakurdas.*) The various banks on behalf of which you speak to-day have been established in India for a number of years?—For a great number of years.

13,962. In some cases extending to nearly half a century?—More than that.

13,963. They work at important ports in India, and have branches at centres where there are imports to be financed?—Yes.

13,964. I think I am right in saying that these banks play no part in financing the cultivators' crops inland?—Very little.

13,965. You represent the British Exchange Banks, but there are other exchange banks similarly interested also in the export trade of India?—Yes.

13,966. Such as the Japanese?—Yes, and Dutch and American banks.

13,967. And there are one or two Indian banks which also do exchange business?—Yes, I think there are one or two.

13,968. I take it that you have not ascertained the views of those foreign exchange banks nor of the Indian exchange banks?—No.

13,969. In connection with what you said in answer to a question put to you by Sir Reginald Mant, what do you think would be the advantage to India of having sterling securities in London instead of having gold in India?—The only advantage would be that those securities would be earning a rate of interest. That is the only advantage.

13,970. Other important countries would not overlook this advantage of interest. Do you know if any of them keep their balances of trade in foreign securities, or do they mostly go in for gold and strengthen their currency position?—I do not think I can say what other countries do, but I should think they are all wanting to get gold just now.

13,971. Is there any reason why India should look at the 2½ or 2¾ per cent. interest which can be earned on securities?—I did not quite catch that.

13,972. Is there any reason why India should have her eye on interest which can be earned on securities, in preference to gold?—I think that India can choose for herself what she is going to have.

13,973. My point was, Mr. Nicoll, that you said in reply to Sir Reginald Mant that India's preference for gold in her currency reserve was based on sentiment. I suggest to you that there is no sentiment about it. It is sound common sense, picked up from what other important countries are doing?—You ought to know. It appears to me that the people of India, instead of having these large amounts lying fallow in India earning nothing would rather have them earning a decent rate of interest.

13,974. Would you call it sentiment if you bore in mind the experience which India had with regard to sterling securities after the war?—What was her experience?

13,975. The depreciation in the sterling?—Depreciation in securities?

13,976. Yes?—Did India lose money over that?

13,977. I am asking you. I am sure you have a very good recollection of what happened to India's holding of sterling securities during that period?—I cannot recollect that India lost any money over that.

13,978. Take the balance of trade of India which, during the war period, had accumulated to the extent of several millions: when it had to be remitted to India at the end of the war, what happened to India's resources here?—Had it got to be remitted to India?

13,979. How did the balance of trade get to India—the 82·50 crores which was here in British Treasury

Bills till September, 1919? Regarding gold currency, you said that very few countries have gold currencies. You mean that very few countries can afford to have gold currencies, do you not? Or do you think that of those which can afford gold currency very few have it statutorily permitted?—I think there are very few countries which have a gold currency.

13,980. Let us take a few countries. South Africa has a gold currency?—Yes, but only quite recently.

13,981. Switzerland has a gold currency?—Yes.

13,982. Holland has a gold currency?—May be.

13,983. America has a gold currency?—I do not know that very much gold circulates in America.

13,984. Gold currency is available there?—Gold is there, no doubt, but I do not know that it circulates.

13,985. England is aiming at it?—I do not know.

13,986. I would like to quote to you an extract from the Times Trade and Engineering Supplement, dated 30th January, 1926, of a speech of Sir Felix Schuster at the Annual General Meeting of the National Provincial Bank, which I understand is one of the five big Banks: "Personally I hope that before many years are over we shall have sovereigns once more in circulation."?—Yes, but that is only one man's opinion. You get another man to stand up and say quite differently.

13,987. You believe that others may disagree with him?—I think that a gold currency is a very expensive thing.

13,988. The question of the cost involved would therefore be for the country and those who are responsible for its taxpayers' money to decide, would it not?—The taxpayer would have something to say.

13,989. Why not let them decide whether they want to go in for this luxury or not? The question is whether anybody would be justified in keeping a country away from it if they were prepared to shoulder the burden?—It is for the people of the country to decide for themselves.

13,990. Therefore those who have to pay for it should decide it?—If they are willing to pay the price they may have it.

13,991. There is nothing wrong in it?—There is nothing wrong.

13,992. You further said you are against gold currency in India because you think the unit would be too great for the requirements of the masses of India?—I think so.

13,993. Presumably in that case gold currency will not be rushed for in India. They will not take to it very violently because the unit is so great that people cannot afford it?—Not for currency.

13,994. Therefore for the purposes of currency, if gold currency can inspire confidence among the masses there is no risk of the people rushing for it?—I do not agree with you.

13,995. I would like to understand that?—I think that the attraction of gold for the native of India is so great that he would rather hold gold if he can do so than hold currency notes.

13,996. But the people of India can get as much gold as they like at present in the open market?—They can.

13,997. I understand that your bank is one of the largest importers of gold in India?—We import a good deal.

13,998. Does the National Bank make any distinction between people who buy gold at the bank's counter based on the use they propose to make of the gold?—I do not understand you.

13,999. Do you make any enquiry of a buyer of gold whether he wants it for genuine industrial purpose or hoarding?—No; we know it is for hoarding, and there is no use in making enquiries.

14,000. Any man can take gold from your bank on putting up the required money?—Yes.

14,001. What is there then which justifies your thinking that the people have not at present taken all the gold they want?—When they see there is gold there and they have got currency notes in their hands, they will come and exchange those currency notes for gold.

14,002. People will substitute gold coin for the currency notes they use at present—that is your opinion?—Yes.

14,003. Do you think they would continue to do it very long?—I cannot say.

14,004. They have been replacing the silver rupee by the currency note in India fairly progressively as it is.—Are they? I am glad to hear that.

14,005. They are reported to be doing that. When the charm of the fresh gold coin has dissappeared, may not this repeat itself?—It is difficult to say where all this gold currency would filter to.

14,006. Where can it filter to?—The whole of Asia.

14,007. You think it goes to the whole of Asia?—Yes. There is no gold currency in Asia yet, is there?

14,008. You have so many branches that I would rather go by your information on that score.—There is no gold currency anywhere in Asia.

14,009. Therefore this would go there?—Well, adjoining countries would take a lot of the gold that circulates in India.

14,010. The imports of gold into India till now include sovereigns?—Yes.

14,011. If any part of Asia which is connected with India wants gold coin, there then exists even at present a way of their getting it?—Yes; that may be, but the gold coin and gold bullion that is imported into India remains very largely in India at present, I think; but if there were to be gold coin circulating from hand to hand through India I think in course of time a large amount of that currency would filter into other countries such as Mesopotamia, Persia, Thibet, and perhaps China. You would have to fill the whole of Asia with gold.

14,012. Before 1914 the British sovereign was effective legel tender in India?—Yes.

14,013. And was freely available from the Government Treasury?—I am not quite clear on that. You mean you could go with 15 rupees to the Government Treasury and get a sovereign for it?

14,014. Yes; at the option of the Government.—Ah, that is so.

14,015. But in fact, immediately after the outbreak of war sovereigns to the extent of 3 crores of rupees were given out by the Indian Paper Currency Office?—Was not that because there was a shortage of rupees?

14,016. No; what I am referring to happened immediately after the outbreak of war in 1914.—I do not recollect that precisely.

14,017. We will then leave 1914 alone. But before 1914 the British sovereign was available in India?—But there was no obligation on the Government to give a sovereign for 15 rupees.

14,018. At the option of the Government the people could get a sovereign for 15 rupees.—At the option of the Government.

14,019. And fairly large quantities were given out by the Government?—Yes.

14,020. Did the sovereign thus given out by the Government of India filter to Mesopotamia and other parts of Asia?—They all disappeared, anyhow.

14,021. Did they?—Yes; and so did the gold mohurs that they coined—they disappeared, too.

14,022. Your experience is that the sovereign which was given out by the Indian Currency Department before 1914 at their option disappeared?—They have disappeared so far as currency purposes are concerned.

14,023. Would it surprise you to learn that the sovereigns returned to the Treasury?*—If you say so; but I have no information on that point.

14,024. Regarding the Secretary of State's requirements, you said that you would like the Secretary of State to sell Councils here in the busy season in India?—In India.

14,025. When the crops are being marketed in India you would like the Secretary of State to sell

* *Vide* Babington-Smith Committee Report, Volume III (Appendices), Appendix B, statements showing absorption of gold coin from 1908 to 1916, pp. 19–23.

Councils more freely than at other times?—Yes; in the season.

14,026. That would mean an accumulation of larger balances with the Secretary of State here than would be justified by his requirements at that period?—Yes; than justified by his immediate requirements.

14,027. The amount of interest earned on such balances in London varies between 2 and 3 per cent. now?—Yes.

14,028. Do you think that that money in India would be very useful for commercial credit during season months?—But the equivalent has been given out in currency in India.

14,029. I beg your pardon.—The equivalent of that money that is lying here that is represented by the Secretary of State's drawings has been given out in India for currency purposes.

14,030. Exactly; but if anything in addition to the Secretary of State's requirements were remitted here, and the currency in India was contracted, to that extent you would not approve of it?—I do not think such would happen in the busy season.

14,031. You do not think it would happen?—Not in the busy season, but I am not quite sure that I caught your question.

14,032. If larger remittances were made from India than were necessary for the Secretary of State's requirements here, that would not meet with your approval?—It would meet with my approval if money was wanted in India and remittances were made during the busy season to meet the requirements of trade.

14,033. It would meet with your approval?—It would meet with my approval.

14,034. Then the restriction that you put in paragraph 3 of your written statement is intended to have what effect? You say there: "Council bills: Only to be sold to the actual extent of Government published Budget requirements."—Yes; that is taking the whole year round but in one month he may sell two crores of rupees, and in the off-season he may sell nothing at all.

14,035. Supposing the total requirements of the Secretary of State in a year were £30,000,000, you would not like them to remit £46,000,000 in a year? That is what I understand you to say.—No.

14,036. But the £30,000,000 may be remitted in three months or in twelve months?—Yes.

14,037. To that extent you would give them a discretion?—Yes.

14,038. Regarding the sale of Councils, you are for tenders in India and in London?—Yes; I explained that it would be more convenient to have tenders in London, in my opinion, but some people in India think that India should have a hand in making these remittances, and I do not see why they should not.

14,039. You say it is more convenient to have tenders in London?—Yes.

14,040. I presume you mean it would be more convenient to the British exchange banks because they have their head offices here?—No.

14,041. How would it be more convenient to the Yokohama Specie Bank or the International Bank, or to the Central Bank of India?—For the same reason that it is more convenient to us.

14,042. You have your head offices here with the general manager?—Yes.

14,043. The non-British banks would require their Bombay branch to wire here their requirements and ask them to put in a tender.—But their Bombay branch would wire them if they wanted Council bills in time to enable them to put in a tender.

14,044. I have no doubt they could do it; but my question is it would not be more convenient to them to do it?—I think it would meet their convenience all right.

14,045. It would not be more convenient?—Well, I say it would be just as convenient.

14,046. It has been said by a witness before the Commission: "Buying or selling of sterling in India by the Government should be adopted for the reasons that by far the greater part of India's trade emanates from India. Rates of exchange are fixed in India, and reversal to the old method of issuing Councils in London would not be in keeping with India's present-day requirements." Would you agree with that?—No.

14,047. Which part of the statement would you challenge?—Will you just read it over again?

14,048. "Buying or selling of sterling in India by the Government should be adopted for the reasons that by far the greater part of India's trade emanates from India. Rates of Exchange are fixed in India, and reversal to the old method of issuing Councils in London would not be in keeping with India's present-day requirements."—That man has got an opinion of his own, but it does not fit in with mine. So far as our business is concerned (and I daresay other exchange banks are in the same position) we get our telegrams from our different branches all over India saying what amount of Council bills they would want. There are some places in India where they cannot get remittances from Government.

14,049. Such as?—Rangoon.

14,050. What I read out is from a witness in Rangoon.—Of course he had a personal interest. You must value his evidence accordingly. If he is giving that evidence from Rangoon he had some personal interest.

14,051. I should have thought that he was most disinterested, because from Rangoon he is unable to tender direct, and still he recognises that the tender should be in India and not in London. That is why I particularly quoted this to you. If it was a witness from Calcutta or Bombay, he might be said to be interested: but a witness from Rangoon could not be so charged.—We find so far as our business is concerned it is much better to get our telegrams in from the different branches and put in one tender on this side.

14,052. I follow that. The head offices being here it is more convenient.—Yes.

14,053. But those who have not their head offices in London would not find it so convenient?—I do not think it matters to the others so long as they have got London offices.

14,054. Regarding the question of ratio, do you think that the question of the maintainability of 1s. 6d. can be put on a par with 1s. 4d.? Is it equally easy to maintain 1s. 6d. as to maintain 1s. 4d.?—You mean in case of a failure of crops?

14,055. A failure of crops or a lull in trade.—I do not think it makes much difference.

14,056. You do not think it makes much difference?—No; I do not think it does. If you get a stabilised exchange I think you could maintain the 1s. 6d. rate just as easily as the 1s. 4d. rate.

14,057. You do not think that at 1s. 6d. the risk of India's reserve being frittered away is greater than at 1s. 4d.?—I do not think so.

14,058. The Finance Member found it necessary only this week to notify that he would sell reserves without limit?—Yes; that is quite true, but he had to do the same thing at 1s. 4d. once.

14,059. Well, I do not know about that.—Yes; he had.

14,060. There is the fact. The notification this week became necessary at the end of three, or perhaps four, good monsoons in India?—Yes.

14,061. And as a result only of a temporary lull in exports. It is not that the crops are not there to move. The crops are available for export, but the prices do not fit in. There is a temporary lull in exports, and the Finance Member had to raise the big stick in order to maintain the 1s. 6d.—Are there surplus crops available for export?

14,062. Well, I would rather go on what you think.—I do not think there is the surplus that you perhaps think there is.

14,063. I may have been out of touch with business for four months, being on this Commission. Perhaps

you have up-to-date reports?—I do not think there are surplus food stuffs, anyhow.

14,064. In spite of this phenomenon which we have seen only this week, you think it is as easy to maintain 1s. 6d. as to maintain 1s. 4d.?—Yes; this phenomenon which you saw last week was largely speculative. There was a report going about the Bombay bazaar that the Currency Commission was going to fix the rupee at 1s. 5d. That is the information that I have got, and that led very largely to this speculative buying.

14,065. Supposing by any misfortune Indian currency had been depreciated during the war period, as happened with other countries, and it was necessary to fix the exchange at 1s. 3d.—I am asking you a hypothetical question, I admit—would the Exchange Banks not have pressed that the Fowler Committee had indicated 1s. 4d. as the permanent ratio for India?—I did not quite catch the last part of the question.

14,066. Supposing, during the war period, Indian currency had depreciated, and nothing over 1s. 3d. was easily available to India to stabilise on, would your Association have pointed out to the Government that the Fowler Committee had indicated 1s. 4d. as the permanent ratio for India, or would it have reconciled itself to a depreciation?—Well, what is the object of that question?

14,067. The object of the question is this. Do you think there is any sacredness about a ratio fixed by a responsible Government Committee 25 years back which was indicated as the permanent ratio for the Indian currency system?—Well, you must have some basis.

14,068. There it is, indicated in 1898.—As 1s. 4d.?

14,069. Yes; as a permanent ratio for the Indian currency system. You can take it from me that the expression there is: "Permanent ratio."—Well, there has not been much permanency in any currencies during the last few years.

14,070. I agree; but the question is whether permanency, if available, should be passed by or not. If you cannot help it, there would be no question.—Was it fixed as permanent in 1898?

14,071. Yes; in 1898, by the Fowler Committee.—And adopted by the Government of India?

14,072. Yes; and it worked very well till 1914.—It is for them to say.

14,073. I will read paragraph 66 to you: "We are, therefore, of opinion that the permanent rate should be that which has been adopted as the provisional rate in the past, and which is also the market rate of to-day, viz., 1s. 4d. for the rupee." "Permanent rate" is the expression.—Yes.

14,074. Let me put it to you in another way. If the rate that was indicated as the permanent rate, and which worked well for a period of very nearly 20 years, or certainly 16 years, is to be disturbed lightly, and supposing that 10 or 15 years later India chose to lower the then existing rate, how would the exchange banks, which are vastly interested in exchange questions, look upon that?—I do not think they would mind. I do not think it would matter much to them.

14,075. You would not mind it?—No.

14,076. (*Professor Coyajee.*) Can it not be inferred that the scheme as prepared by you——?—It is not prepared by me.

14,077. The scheme as fathered by you is a preparatory stage for the ultimate introduction of gold currency into India?—Not for gold currency.

14,078. Then why do you refer in No. 3 to cutting down the sale of Council bills, and in No. 4 say that no additional currency should be issued not covered by actual tender of gold, and in No. 8 the increase of gold reserve—are not all those preparatory towards the ultimate introduction of gold currency?—Well, it might come to that if conditions were favourable, but it would be a very long time before they are, in my opinion.

14,079. In paragraph 5 you observe that the management of the currency notes should remain in the hands of the Indian Government. What are the possible dangers and difficulties which you foresee if the note issue is handed over to a central bank?—Well, I do not know what the central bank is, I do not know anything about its constitution or its functions. I cannot say whether the guarantee of the central bank would be a sufficient guarantee for the redemption of those notes which are issued.

14,080. Taking the present Imperial Bank as the central bank, could you suggest legislative safeguards and limitations by which such a transfer of the note issue would be secured?—No, I would have the currency notes as an obligation of the Indian Government. The Government or institution, or whoever it is, who guarantee the redemption of those notes, ought to have the management of the note issue.

14,081. You do not think that any restriction could be devised which would safeguard it?—I would not say that. If anything was put before me as to what the constitution of the central bank was to be, if there is to be such a bank, I could offer an opinion; but without some knowledge I could not offer an opinion.

14,082. (*Sir Alexander Murray.*) In connection with the question of the ratio of exchange, it was put to you that 1s. 4d. having been the ratio recommended by the Fowler Committee away back in 1899, and adopted by the Government of India, it was only natural that the rate should be allowed to continue.—Yes.

14,083. As a matter of fact, looking back the records, I find that the average rates of exchange that were ruling just before the Fowler Committee reported were as follows. You remember the Fowler Committee reported in July, 1899?—Yes.

14,084. I will just give you the figures for one or two years before that—years ending 31st March. In 1893 the average rate of exchange was 1s. 2.984d. This is the average rate of exchange for remittances.—Yes.

14,085. In 1894, the average rate was 1s. 2.546d.; in 1895, the average rate was 1s. 1.100d.; in 1896, the average rate was 1s. 1.638d.; in 1897, the average rate was 1s. 2.450d.; in 1898, the average rate was 1s. 3.402d.; in 1899, the average rate for the year to 31st March was 1s. 3.978d. I have given you the rates for the seven years up to the year in which the Fowler Committee reported.—Yes.

14,086. In those seven years the average rate did not reach 1s. 4d., yet the Fowler Committee recommended 1s. 4d.—Yes.

14,087. That does not give any virtue to 1s. 4d. in your opinion, does it, seeing that that Committee simply fixed on an arbitrary rate after seven years when the average rate was below 1s. 4d.?—Well, the exchange at the present time, and for the last 12 months has been more or less stabilised on the basis of 1s. 6d. I think that is the only factor that influenced the banks which are named in this letter to advocate a 1s. 6d. rate. It has been standing at 1s. 6d. They foresaw if any figure below that or 1s. 4d. was recommended there would be very great difficulty and very great chaos in trade—if it went back to 1s. 4d.

14,088. In your opinion, in view of the figures I have given you, there would be more justification for the Commission recommending 1s. 6d. on the basis of the figures at the time than there was for the Fowler Committee recommending 1s. 4d.?—Well, when the Fowler Committee recommended 1s. 4d. the exchange was very nearly in the neighbourhood of 1s. 4d.; anyhow, there was no dislocation of trade.

14,089. (*Sir Purshotamdas Thakurdas.*) You realise, Mr. Nicoll, that the Fowler Committee was recommending a rate for the first time, and had nothing to fall back upon?—I did not catch that.

14,090. (*Sir Purshotamdas Thakurdas.*) The Fowler Committee were recommending an exchange ratio in 1898 for the first time in the history of the Indian currency system.

14,091. (*Sir Alexander Murray.*) The Herschell Committee recommended it.

14,092. (*Sir Purshotamdas Thakurdas.*) They only confirmed the temporary rate recommended by the Herschell Committee. There was no permanent ratio on the Statute book before then.—The Herschell Committee sat in 1893.

14,093. And indicated a temporary rate.—Of 1s. 4d., I think it was.

14,094. A temporary rate?—Yes.

14,095. (*Sir Purshotamdas Thakurdas.*) The Fowler Committee confirmed that temporary rate for the first time as a permanent rate. I just want to mention that.

14,096. (*Chairman.*) That makes the point quite clear; but I think we might proceed with the questions.

14,097. (*Sir Maneckji Dadabhoy.*) As I read your paragraph 2 in conjunction with what is stated in paragraph 8, I came to the conclusion that the difficulty which your Committee of Exchange Banks had in not recommending gold currency was mainly due to the reserves not being wholly adequate for the purpose; but your evidence, as I understand it, in answer to the Chairman as well as in answer to Sir Purshotamdas Thakurdas, leads me to a different conclusion, and that is that you now, on behalf of the British Exchange Banks, withdraw altogether the recommendation regarding a gold currency.—No.

14,098. You do not?—No.

14,099. You are still in favour of gold currency?—No.

14,100. Then you withdraw your recommendation?—I am not in favour of gold currency for India. There is nothing in this letter which says that I am in favour of gold currency for India.

14,101. I may be wrong, but as I read paragraph 8 I understand it is clear that you do recommend it, because it is stated: "It is with this end in view"—that is, the end in view of the introduction of gold currency.—Well, I think it was in the minds of the banks that it was very desirable to accumulate a gold reserve, anyhow against a note issue. It is a sound thing to do. It may have been in the minds of some of them that ultimately a gold currency might be feasible for India without being too expensive; but anyhow, there could be no harm in accumulating a gold reserve against the notes issued.

14,102. Let me point out in paragraph 8 of the memorandum you say: "It is with this end in view, therefore, that we advocate a policy which would increase the gold reserves so that when the day comes (it may be ten or more years hence) India's gold position will have been steadily improving all the time, which will enable her to tackle the problem when it does come up again upon a surer basis."—Well, ultimately it might come up, but we are only deailng with the present.

14,103. Yes; but you think that ultimately it will come?—It might come.

14,104. It might come?—Yes.

14,105. Do you recommend it or not, ultimately?—I could not say what I would recommend 10 or 15 years hence.

14,106. You might recommend it 10 or 15 years hence?—No; I could not say what I would recommend 10 or 15 years hence. It must depend on conditions then.

14,107. In the meanwhile, do you recommend the establishment of a Mint in India for the purpose of coining gold coin?—There is a Mint established now for coining gold coins.

14,108. But where bullion can be presented and exchanged for gold coins which may be coined there. Would you recommend that during the interregnum?—For currency purposes?

14,109. For currency purposes, so that you could bring bullion and in exchange get gold coins, sovereigns or Indian mohurs, and have that as a voluntary or optional medium of currency? Have you any objection to that?—It would be rather a complicated scheme. You would have the unlimited legal tender of the rupee at the same time?

14,110. Yes.—But you could not have the two currencies running together.

14,111. You say there would be two currencies running together?—Well, there would be the unlimited legal tender of the rupee, and you would also have the sovereign as currency, or the gold mohur.

14,112. You could take bullion and get sovereigns in exchange?—I do not think you could have two currencies running together.

14,113. You say those two currencies cannot run together?—No one would drive the other out.

14,114. May I draw your attention to the fact that the Babington-Smith Committee strongly supported this recommendation?—Well, that may be so; but the Babington-Smith Committee recommended a lot of things which have proved very troublesome.

14,115. Also the Fowler Committee made that recommendation.—Well, it is a well-known law that if you have two currencies running together the base one drives the other out. They would buy up all the sovereigns or gold mohurs with rupees.

14,116. Before 1914 there were two currencies running simultaneously in India. Gold and sovereigns were being given by the Treasury in exchange for rupees.—Well, they did not last. The rupees drove them out.

14,117. They lasted a number of years.—But the rupees drove them out.

14,118. It lasted a number of years till the mohur came in and intercepted it, and there was nothing to prevent it progressing until the war broke out in Europe.—There is the ordinary law that the inferior currency will drive the superior one out.

14,119. You do not think this is a feasible plan for India as a temporary measure?—No.

14,120. As satisfying the aspirations of the people to have free coinage in India going on side by side with the present arrangement?—No.

14,121. You do not think so?—No; I do not think it is feasible.

14,122. You are aware that in India there are large stocks of gold?—Yes.

14,123. And that they are lying dormant?—Yes.

14,124. It is a most uneconomic method of keeping that quantity of gold in the country?—Yes.

14,125. Would not it lead to the prosperity of the country if a method were devised for making a more beneficial use of this locked-up gold?—Undoubtedly.

14,126. What method would you suggest?—Well, that has been a problem that has not been before many people connected with India for a very long time. They might, for example, sell their gold and invest it in industrial concerns. They might even buy Government securities with it.

14,127. But not make gold coins?—No.

14,128. You said in answer to the Chairman that the recent method of purchasing sterling in India is not good, and you recommended the elimination of the broker altogether?—Yes.

14,129. Over and above the recommendation that the broker should be eliminated, have you any other complaint against that method?—I have no complaint against remittances being arranged in India if the Indian people want to have them. I have no complaint against it.

14,130. If that method has worked well, you have no objection to retaining it?—No.

14,131. Can you advise this Commission as to the extent of the gold reserve you would accumulate?—Against the currency issued?

14,132. Yes.—The more they get the better, I should think.

14,133. But can you recommend some figure, or can you prescribe some limit?—Well, I think the ideal reserve, so long as the rupee is currency in India, would be to have 50 per cent. in rupees; 25 per cent. in gold; and 25 per cent. in sterling securities.

14,134. (*Sir Henry Strakosch.*) In the course of the evidence you gave this morning, you said that you wanted to keep an open mind regarding the establish-

ment of a central bank until you know what the constitution of that central bank is to be. May I put to you very broadly the main provisions of a central bank constitution with a view to having your opinion as to whether you would regard such a central bank as a useful organisation in India? I am merely giving you the main conditions of bank charters in other countries. The central bank should have the sole right of note issue, which is regulated by provisions which lay down a minimum reserve in gold and other securities. The bank is to act as the bank of the Government and of the other banks. The business of the bank is to be restricted in the main to discounting true commercial bills drawn against goods, and making advances on them. The charter usually imposes the condition that the bank is not to allow any interest on current and deposit accounts. Those are the main provisions of the bank charter in most countries. Would you regard a bank established with a charter of that character as a desirable thing to have in India?—Well, it is very difficult to answer a question of that sort on short notice.

14,135. I will just say this : that a very important body of evidence tendered to us was in favour of the establishment of a central bank and the handing over of the management of the currency to such a bank?—Well, I am perfectly convinced that if the note issue is to be maintained and to grow it will have to have the guarantee of the Government of India. It is growing now, but the people there are not educated up to the central banks.

14,136. You attach no importance to the opinion which has been tendered to us.—I do not say that.

14,137. One moment; let me finish my sentence. Would you agree with the opinion that has been tendered to this Commission that the advantage of handing over the management of the currency to a real central bank is that you would be centralising the currency and banking reserves, and be avoiding wide fluctuations in money rates and divergent policies in regard to currency by the currency and banking by the banking authorities.—You understand that India is a very different proposition from a central bank in South Africa or on the Continent of Europe.

14,138. Why does it differ?—The conditions there are so very different.

14,139. Would you mind saying exactly where it differs?—Well, for one thing, the people of India are not as yet educated up to the ideas of western banking—at any rate, the great mass of the people are not. There is only a very minute fraction of the people who know anything about banking.

14,140. Do you suggest that the bankers in India do not know anything about banking for the Central Bank would be mainly a bankers' bank?—Not the bankers; but I am talking about the mass of the people in India. They know very little about the methods of western banking. As it is at present, as Sir Purshotamdas Thakurdas said, the mass of the internal trade in India is now being done by Indian bankers, shroffs, and others. They finance the trade of India down to the coast.

14,141. Would you not regard it as an advantage to the credit organisation of India if those native bankers were in a position to take refuge by rediscounting with a central bank in times of crisis?—They do that at the present time, to a certain extent, with the Imperial Bank.

14,142. To what extent can the Imperial Bank rediscount if it has no right of note issue?—They can only discount to a certain percentage of their deposits and their resources.

14,143. But if it had the right of note issue, and if one of the conditions of note issue was that apart from a certain percentage of gold it could put into its issue department local bills, would not that strengthen it?—What sort of bills? It is very difficult in India to discriminate between bills which actually represent transactions in produce or commodities, and bills which are simply accommodation bills.

14,143A. But so it is in every other country.—Not to the same extent in India—much more difficult in India.

14,144. May I put it in a different way? The exchange banks are largely concerned in financing the exports of the country?—Yes.

14,145. And internal trade credits are really a minor part of your business?—Oh, nothing practically.

14,146. Therefore, if there were to arise a crisis you would always be able to take refuge at the Bank of England by rediscounting here?—There is a discount market in London, not necessarily the Bank of England.

14,147. Ultimately the Bank of England?—Yes.

14,148. Let us suppose you were to do local business and you had no possibility of recourse to the Bank of England, would you regard your bank as being in as favourable a position without a central bank as with a central bank in India?—You mean we might take refuge with the central bank in India in the same way as we would do with the discount market in London?

14,149. Exactly.—Well, I do not see the necessity for it.

14,150. But supposing that you did all your business in India and you gave credit in India to foster production in India, and on the one hand you had a central bank to which you could go in times of stress and stringency to rediscount your bills.—Yes.

14,151. And on the other hand, there is no such bank, or a bank whose powers of rediscounting are very limited?—But we do not require that.

14,152. Because you do not do the true Indian business.—No; there is the machinery for that business already in India, the machinery being the native banker.

14,153. How does he handle things if there is a stringency?—I do not know how many native bankers there are in India, but there must be thousands—many thousands—who have their own resources. Is not that so?

14,154. And they finance the crops and produce of the country up to the extent of their own resources?—Whenever they exhaust those they can go to the Imperial Bank where they will get a considerable amount of credit.

14,155. But you have agreed that the Imperial Bank's power of giving credit is severely limited by the deposits it gets?—It is limited to the extent of its resources, no doubt.

14,156. That is right.—And I do not know that it is necessary to increase them. I think the Imperial Bank with its resources, and its increasing reserves will be sufficient to finance the trade of India satisfactorily.

14,157. On the whole therefore, may I take it you would be against the establishment of a central bank?—Well, I have not had time to think it over. I would not like to say that I am against it because it is a new proposition to me.

14,158. Has not it been put before your Association?—No; it was never mentioned at the Association, and I should like to add that anything I have said in connection with that central bank is my own personal view, because it was not mentioned by the Association.

14,159. (*Sir Purshotamdas Thakurdas.*) You said just now that the masses of India were illiterate?—No; I did not use that word.

14,160. Well, if you like to substitute that they have not had enough education, or whatever word you like to use, and therefore it may be a question whether they would have confidence in the note issue of the Imperial Bank. May I ask if there was a note issued by a Central Bank or by the Imperial Bank constituted into a Central Bank, would such notes have the confidence of the exchange banks for which you are speaking?—Well, I think so.

14,161. A banker who appeared before this Commission who is interested in developing banking in India, not an exchange banker, mentioned that what

he called the monopolist position of the Imperial Bank ought to prevent the Imperial Bank from having the note issue?—I do not follow you.

14,162. He said that the monopoly of the Imperial Bank with regard to Government balances and the fact of its competing with banks in the inland centres by opening branches, should be considered as a bar to the Imperial Bank being given the note issue. Would you agree with that?—No.

14,163. In his written statement he makes this remark, which I will just read as it is only one sentence: " One restriction placed by the Act "—that is the Imperial Bank Act—" on the Bank's function is that the Bank cannot engage in foreign exchange banking business, so that the exchange banks working in India are relieved from the uneconomic competition of the bank." Would the exchange bankers have any objection if the Imperial Bank, as a central bank, were allowed to do exchange business?—I do not think they would like it.

14,164. Because of the increased competition, I presume?—No doubt.

14,165. But increased competition up to a certain point is to the benefit of the community sometimes, is it not?—Sometimes there can be too much of it.

14,166. With regard to the numerous Indian shroffs and moneylenders who largely finance the Indian crops, this class of banker have their own resources only up to a certain point?—That is what I have said.

14,167. But when these get exhausted in a busy season even this class have to fall back on the Imperial Bank for credit, have not they?—Yes.

14,168. Therefore the larger the resources of the Central Bank the better for the turnover of the Indian petty banker also?—Yes, if there is an increased demand for money for financing crops, but I think up to now—we are talking of up to now—the resources of these native bankers plus the resources of the Imperial Bank or the other banks, have been sufficient.

14,169. Let me remind you of what happened in 1924, when the Imperial Bank rate remained at 8 or 9 per cent. for six months of the year. From January to June the Imperial Bank rate remained at between 8 or 9 per cent. for that 6 months?—That was largely owing to the instability of the exchange. It was largely due to that. This year there has been just as much finance required, but we have not had it higher than a 6 per cent. bank rate. Why? Because the exchange has become stabilised.

14,170. But if the two balances which Sir Henry Strakosch referred to were amalgamated there would be nothing wrong in it, and it would give the country a large balance in case of need?—Which two balances?

14,171. The Government balance, and the Bank balance?—Of course, the Government do keep their balances largely with the Imperial Bank now.

14,172. (*Sir Henry Strakosch.*) I said the currency and the banking position.

14,173. (*Sir Purshotamdas Thakurdas.*) the currency and banking position?—Even if there was a central bank, they could only issue notes against gold, I suppose.

14,174. There would be no objection to that. That would simply make more money available to the country, if trade needed it?—But that is what the Imperial Bank or the Government could do at present. By tendering gold they would issue the equivalent in Indian currency.

14,175. Do you see anything unsound in the proposition that Sir Henry Strakosch has put to you?—I see nothing unsound in it at all.

14,176. (*Chairman.*) There is nothing you would like to amplify?—No. I hope I have made myself clear.

14,177. (*Chairman.*) We are very much obliged to you for your assistance to-day.

(*The witness withdrew.*)



## FORTY-THIRD DAY.

## Friday, 16th April, 1926.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman.*)

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Preston.

Mr. G. H. Baxter } (*Secretaries*).
Mr. A. Ayangar }

Lord Bradbury of Winsford, G.C.B., called and examined.

14,178. (*Chairman.*) You were at one time Joint Permanent Secretary of the Treasury and principal British representative on the Reparations Commission?—Yes.

14,179. You do not at present hold any official position?—No. Of course, I am Chairman of the Food Council, but that is an honorary position.

14,180. You have been kind enough to come and assist us this morning and there have been submitted to you, I think, some documents* which have been circulated to the witnesses in order to put them in possession of some of the proposals which are under consideration, and also certain questions which would indicate the matters which we are particularly concerned to enquire into at this stage in our deliberations. I understand you would rather prefer that we should ask you questions which occur to us than to submit any memorandum on your part?—Yes. I received the very interesting documents you sent to me. I did not attempt

* See Appendix 95.

to reply to what perhaps I may be permitted to call the somewhat formidable questionnaire, partly because I can make no pretence to be an expert as regards Indian conditions. Of course, I do know something about currency from the world point of view and from the British point of view, and I thought that my opinions might be of interest, and possibly of value on the more general question you had to consider; but at the same time I should not attempt to give any replies pretending to any authority in regard to the special Indian aspects of the question.

14,181. I think we thoroughly understand that. Our questions can be directed with more advantage to the general aspects of our reference rather than to the more particular aspects requiring expert knowledge of Indian conditions. Can you assist us, in the first place, by telling us how, in your judgment, you would describe on general lines the British system of currency and its basis?—The traditional British system of currency since the restoration of gold payments after the Franco-British war at the beginning of the 19th century and as established by the Bank Act, is the standard of a free coinage of gold and free convertibility of notes—what may be called a simple gold standard and gold currency. That basis, of course, was temporarily abandoned during the late war, and we have now gone back to a system which is practically identical with the system which was completed by the Bank Act of 1884, except that for the time being, at any rate, we have not free internal circulation of gold. At present the Bank of England note, instead of being payable in gold coin as under normal conditions, is by law payable in bullion. The same is the position as regards the Treasury note.

14,182. Then what is the legal basis for the gold value of the pound sterling?—The legal basis at the present moment for the gold value of the pound sterling is that the Bank of England is by law compelled to give legal tender money in exchange for gold bullion, and to give gold bullion in exchange for legal tender money at a fixed ratio—at a fixed price.

14,183. It is that which constitutes the fixed relation between the official paper currency and gold value?—That is so.

14,184. Can anybody get gold coins for notes?—In practice, yes. The Bank of England is prepared to give gold in exchange for notes, I understand, as a matter of fact; but at the present moment there is no legal obligation upon the Bank to do so.

14,185. We all know that practically it is not done?—No. At the present time there is very little demand for gold for internal circulation. The community has become so used to the £1 note that perhaps it would hardly be too much to say that it prefers it to the sovereign.

14,186. Now comes a question which you may have some difficulty in replying to, and which I may have a difficulty in framing; but let me put it in this way. What would you consider to be the probabilities as regards the public policy of the country in relation to the return to gold circulation?—I should think it will ultimately be a matter of popular taste. From any serious economic or financial aspect I see no advantage whatever in an internal gold circulation. At the same time, if the community, for its own convenience, likes to circulate gold coins, and if the conditions of the gold market of the world and also the internal financial conditions of the country are such that what I may perhaps call rather an expensive luxury can be tolerated without serious inconvenience, I should be wholly in favour of the restoration of the gold circulation to that extent—to the extent to which the taste of the community and the preferences of the community may desire. From any serious business or economic point of view I attach no importance whatsoever to the question.

14,187. It would be useful for illustrative purposes if you could tell us whether it is possible to form any estimate as to what gold circulation would cost this country now. Have you ever been able to arrive at any figure?—At a very rough shot, I suppose, if the custom of using gold for all the transactions below £5 and a large number of the transactions over £5 which are not carried out by means of cheques became universal again, probably £100,000,000 sterling of gold would be absorbed into circulation. The cost of it, therefore, can be put to the country as the interest on £100,000,000 cost of gold coin. That would be what I should call the national cost of it, plus the cost of the wear and tear of the gold coinage and minus the cost of the notes displaced.

14,188. Under existing credit conditions it would be something between £4,750,000 and £5,000,000 per annum?—Yes; I should put it somewhere in that neighbourhood.

14,189. Let me turn to another matter on which your assistance would be of great value. I want to ask you in general, on the question of the reserves of a central bank, as to the best way of constituting the reserves as regards the relation between their liabilities and assets. Various methods are in use. I suppose the two principal are (1) to have a fiduciary issue of a fixed amount, and (2) to have a fiduciary issue of a proportion of the total note issue, with some provision as to expansion in case of need. Could you give us any expression of your opinion as to the relative merits of those methods, or of any other method of constituting reserves?—I find it rather difficult to give general opinion. The tendency recently has undoubtedly been to depart from what I may call the traditional British method of a fixed fiduciary issue and a marginal issue covered £ for £ by gold, in favour of the method of requiring that there should always be gold cover for a certain percentage of the total issue. The new German currency since the introduction of the Dawes plan is based on the percentage method. I have a very strong opinion that having regard to the special position of Great Britain in regard to international trade that the maintenance of the traditional method for this country is essential. I should be very sorry indeed to see the percentage method adopted here. Whether in other conditions, such as those, for instance, operative in the United States of America in particular, the percentage method is not a better method I should not be prepared to say. I think it may be. But I do think it essential if London is again to become a free market for gold, and also if the £ sterling is to remain, as it is, the sheet anchor, so to speak, for other currencies, the method of fixing your reserve not according to your total issue, but according to the fluctuations of your total issue, giving full gold cover for the fluctuations is the right method for this country; but I base that opinion very largely on the special conditions of this country rather than on general currency principles. I hope I have made it clear.

14,190. I am not to put to you anything which, as you said, requires very detailed knowledge of Indian conditions, but, with your general knowledge of Indian conditions, could you relate what you have said in any way to India?—I should say, as regards India, a good deal would depend on the general currency policy adopted. If India wishes, as regards her currency system, to revert to the pre-war system, in which the rupee was closely linked to the £ sterling, then I think probably such gold cover as India would require might quite reasonably be a percentage gold cover. If, on the other hand, India desires to have an entirely independent standard of value of her own, and in no way to be dependent on the £ sterling, then I should be disposed to think, with the special conditions of India (though quite different from our own special conditions), more particularly having regard to the very large fluctuations to which for economic reasons Indian currency is subject, that the wisest course for India, as for Great Britain, though for quite different reasons, would be to adopt the principle of a fixed fiduciary circulation, a certain fixed gold cover against that fiduciary circulation, and then a £ for £ cover or rupee for rupee cover for any excess over that fixed

margin. That would be my *prima facie* view, though, as I say, I cannot pretend to any very special knowledge of Indian conditions.

14,191. We quite follow that your opinion is that if India were to have a sterling exchange standard she should have a percentage cover; but if she had a gold standard of some form she should have a fixed fiduciary circulation?—Certainly that would be my general view.

14,192. What would be the reason which would lead you to that different course according to the different conditions?—My own view is that what I may call the fixed fiduciary principle gives you a more certain automatic reaction under conditions both of expansion and contraction. With a percentage cover, expansion tends to become too easy and contraction may prove too difficult. Therefore, if you have a system under which you alone are responsible, so to speak, for the maintenance of your currency, it is very much better to have a system capable of rigid application. If, on the other hand, you have got what I may perhaps call—I do not use the word in any derogatory sense—a "parasitic" standard, that is to say, a standard for which you are not primarily responsible to the country which owns the standard—that is to say, an exchange standard—then, after all, if anything really serious happens, it is the other man's funeral before it is yours—I mean, he is really responsible for maintaining your standard.

14,193. In your view, the form of gold standard under Indian conditions being more difficult to maintain, involving a greater element of risk, it requires a more powerful engine to support it?—It really amounts to that, but I should not put my point quite in that way. Roughly speaking, there are two possible lines for a country desiring a stable currency to take. It can say either: We are disposed to make the arrangement by which our currency shall be maintained in relation to what has hitherto been the most stable value in the world, the value of gold. We are not going to trouble ourselves about what anybody else does, but what we are going to do is to take care that our currency shall have the same value as gold. That is a possible policy. If you adopt that policy you naturally take the responsibility qua your own currency of maintaining a gold standard, and you are very much concerned with the movements of gold and the price of gold. The other possible policy is to say: We are perfectly satisfied with the general currency policy, say, of Great Britain or of the United States of America. We are perfectly sure that Great Britain will not allow the £ sterling to get into trouble. We are perfectly sure that the United States of America will not let the dollar get into trouble. Therefore, we will take such steps as may be necessary to secure that our currency shall have a stable value in relation to the £ sterling or the dollar. If you adopt that policy logically you need not trouble yourself about gold at all. The relation of the £ sterling or the dollar, as the case may be, to gold is a matter for the Government of Great Britain or the United States. You simply lay your plans on the basis of keeping your currency stable in relation to the particular foreign unit of value which you adopt for the purpose. Then the point on which you must concentrate is to secure that if you want to contract your currency you always have at your disposal supplies of pounds sterling or dollars, as the case may be, to buy up your currency, and see when you want to expand your currency that you accumulate reserves of pound sterling or dollars with a view to the period of contraction when it comes. But you cease to be interested in gold unless you think as a large country should properly think, that having made use of a particular foreign currency that you owe a certain debt to the country whose currency you are making use of to assist them in maintaining what is then a common interest, the stability of the basic currency in relation to gold.

14,194. I gather, in your opinion, that were a country to adopt what you call in no derogatory sense a "parasitic" standard, say, a sterling exchange standard, it is still a matter for that country to consider as to whether or not to bear a hand in contributing towards the obligation to maintain the gold supply upon which the currency of both countries is based?—Yes; I think so for two reasons. The first reason is this. If I might follow the "parasitic" metaphor, perhaps it makes it clearer. The "parasite" naturally will wish to feed on a healthy animal. Anything which promotes the health of its host is of course in its own interest, as well as in the interest of its host.

14,195. I suppose there would be other minor considerations which would come into account in considering whether it was not necessary to keep some gold in reserve, even under a pure exchange standard; for instance, the provision of a buffer between the immediate needs of the country and the security market, in order to prevent too severe an impact upon the security market by the sale of securities?—Yes. With an exchange standard, of course, it is a very important matter that your reserves held in currency on which your own currency depends should be sufficiently liquid, but that liquidity can be secured without an absolute gold reserve—I mean, the deposits at call in the countries concerned and a good portfolio of bills of exchange payable in the basic currency, for the purpose of immediate needs, are as useful as metallic reserves. On the other hand, if actual convertibility of the note into gold is desired local reserves of gold would be necessary to maintain that convertibility. That is rather a separate point, but from the standard point of view theoretically, I think, not an ounce of gold is required.

14,196. You have been discussing the relative bearings of the gold standard and an exchange standard, for instance, a sterling exchange standard. In your view, does a gold standard necessarily imply gold currency?—A gold standard, certainly not.

14,197. I suppose we might refer to the present English arrangement as an example of a gold standard without a gold currency?—For all substantial purposes it is. There are a few gold coins still in circulation, but the total amount is negligible.

14,198. At present there is no legal internal convertibility?—That is so.

14,199. You have been talking of those two possible standards, the sterling exchange standard and the gold standard without a gold currency for the moment rather from a general point of view. Could you deal at all with the relative advantages of those two standards for India?—I should think myself that the pre-war method, which was the sterling exchange standard, had proved by experience to be a method admirably suited to the needs of India in normal times. Of course, there were certain influences arising out of the war that had very serious reactions upon Indian currency, but whether those reactions were the result of the fact that the sterling exchange standard, rather than the gold standard, had been adopted is a question upon which I should not like to dogmatise.

14,200. Might I ask you to repeat the last part of that answer?—I should not like to dogmatise as to whether the troubles that arose in connection with Indian currency as a result of the war were due in any large measure to the fact that the pre-war standard was a sterling exchange standard rather than a gold standard. I think it might be possible to argue that, if India had had a complete gold standard before the war she would have suffered less from currency troubles than she did. I think it is possible to argue that, but I do not think it is absolutely established. As I say, I cannot really pretend to have that detailed information of Indian conditions which would make my opinion of much value.

14,201. If I might ask you to speak for a moment from the point of view of one with a unique knowledge of the British currency system and the systems of Europe, what do you think would be the general interests of the currency systems of the civilised world as between those two standards for India at the present time. I mean, what would be the bearing, in relation to the general currency systems of the world, of the adoption of either (*a*) a sterling exchange standard, or (*b*) a gold standard (without, for the present, gold currency)?—Well, the adoption of an independent gold standard by India, even without gold currency, and of course to a very much larger extent with a gold currency, would necessarily mean purchases by India of a considerable amount of gold for reserve purposes; that is to say, a certain amount of gold would have to be taken by India from the world market and locked up. From the Indian point of view the cost is the interest on that amount of gold. From the general world point of view it means that other countries and the yearly production of gold of the world have to provide the amount of those reserves. Putting the amount required at the figure that was in the papers which were sent to me—that was a suggestion for a gold circulation of £100,000,000 sterling.

14,202. That is on the assumption that there is to be the introduction of gold circulation?—Could you give me a figure which you have in mind for the purpose of argument for the gold standard without the introduction of gold circulation? What addition do you think one should contemplate to the Indian gold reserve in those circumstances? I only just want a figure for the purposes of discussion.

14,203. The best figure I can give you for the purposes of discussion would be that for the establishment of a gold standard without a gold circulation there would be required 25 to 30 crores within a period of, say, 10 years?—Would you mind just translating that into sterling, because my mind does not move very easily in crores?

14,204. A crore is three-quarters of a million, so that it is three-quarters of 30,000,000 crores as a maximum?—That would be somewhere between £20,000,000 to £25,000,000?

14,205. Yes?—Well, having regard to the present distribution of gold in the world I do not think the taking off the market, so to speak, of £20,000,000 to £25,000,000 would have any very serious effect. For a good many years to come the gold supplies of the world will certainly be surplus to the currency requirements on the existing level of prices. If I may put it in another way, I might put it like this. If the United States Government (the United States being at the moment a very large holder of gold) saw fit to allow the American gold reserves to exercise their normal and traditional effect on the creation of credit, there certainly would be a very considerable rise in dollar prices. That rise in dollar prices would be reflected in a general rise in all world prices. The liberation, so to speak, of the United States gold reserves would result in a new world price equilibrium considerably above the present world price level. For various reasons such a general world rise in prices does not suit the United States of America. Therefore the currency authorities of the United States have with very great skill taken measures to prevent the large accumulation of gold which exists in America from having its full effect on American prices. There is a certain amount of gold, a very considerable amount of gold, in the United States, which for credit purposes is sterilised. The United States would be very naturally willing to part with a considerable amount of that gold provided they could part with it without a general rise of American prices, which would be reflected in world prices, and so would not be in the interests of the United States, because a general rise of prices would, of course, diminish the advantage it holds as a creditor nation. I take it, therefore, the United States would welcome the absorption of a considerable amount of gold in the currency reserves of other countries and give facilities for its release. To part with £25,000,000 or even £100,000,000 of gold to India would, from the United States' point of view, be an extremely good bargain. It would be useless gold got rid of. I think even £100,000,000 could easily be acquired if India thought it worth her while to buy it for currency purposes without any real material effect on the currency conditions of the world.

14,206. We may take it generally that, in your view the central banks of Europe and of the United States would not be sorry to see India helping to carry the world's gold reserves?—Well, my own view is at the present moment that the main burden of carrying the world's gold reserves rests on the shoulders of the United States of America, and as that country seems in as good a position to be able to afford it as any other country, I am quite content that it should stay there.

14,207. It is a serious matter for India to consider whether it should interfere with so popular an arrangement for other countries?—From the point of view of other countries I do not think it is really very material whether the United States transfers £100,000,000 of gold to India or keeps it itself. For a good many years to come, if my theory is correct, the value of gold will have to be maintained by deliberate action on the part of the United States of America, that is to say, the United States will have to bear loss of interest on the surplus gold of the world, except to the extent to which other countries may be willing to accept part of that loss for the purposes of obtaining a gold backing to their currency. One cannot speak statistically in regard to this matter. It seems probable that from the course of events since the Dawes plan came into operation that Germany will absorb for the purpose of reserve a much larger amount of gold than at one time I thought was at all likely. That will relieve the burden on the United States. If India does the same, that will be a further relief, and a point will ultimately come at which the American gold reserves are not more than sufficient to maintain the existing price level and the normal basis of credit in America. When you get to that stage, then the world gold market in the old sense will have been restored and prices will depend largely on the amount of new gold coming from production, but so far as I can see it will be a good many years before the visible supply of gold has really its normal effect on world prices. I think there is that large cushion of unnecessary accumulated gold in America which will take many years to absorb, though the pace at which it will be absorbed depends largely on the currency policy of other countries. As I said, Germany is absorbing a good deal more than I expected. If India absorbs another pocket, that will accelerate the time at which the free gold market in the old sense is restored, and then there may be all sorts of events in Russia and China which one cannot foresee. It is not a subject on which prophecy is at all safe. All I should be prepared to say is that at present there is a very large margin of gold in the United States of America which will have to be absorbed before the visible supply of gold in the world again has any appreciable effect on the general price level. I hope I have made my view clear.

14,208. Very clear. As regards the surplus supply in the United States, is it possible to make any calculation as to the period within which the normal expansion of population and trade in the United States would absorb that surplus supply?—Well, I should much prefer that question should be put to a professional statistician. I should not like to hazard a guess myself.

14,209 We have had some statistical information put before us as to the future relation between the world's supply of and the world's demand for gold for monetary purposes. Is that a matter which I should ask you about or not?—I certainly should

not be prepared to speak dogmatically about it. Indeed, I am not at all sure that it is a very profitable subject for speculation, because so much depends on the currency policy adopted by various countries. Under modern currency conditions the real demand for gold is a demand for reserves rather than a demand for circulation. The volume of the reserves will depend very largely on questions of policy. This very question you are discussing as to whether India should take £100,000,000 sterling or abstain from taking £100,000,000 sterling is an example. In a free market, apart from the considerations to which I have been calling your attention in the case of the United States, if you had an absolutely free market for gold, and no surplus gold locked up as it is in America, of course a change in demand by £100,000,000 would make an enormous difference to world prices. The thing depends very much on decisions on policy by countries like India and Germany, and ultimately Russia and China, so that I doubt whether it is possible for anyone, even one possessing far greater statistical knowledge than I have, to speak with anything approaching dogmatism.

14,210 I understand you go so far as to say that a demand for, say, £100,000,000 of gold for India would be a substantial, perhaps even a decisive, factor in determining the relation between the supply and demand of gold and the effect of that relation upon general prices?—Yes, subject to this, that so far as I can judge, if such a demand were made within the next few years it could be supplied and would be supplied from the surplus reserves of the United States without any serious disturbance of world prices, owing to the special conditions existing in the post-war world. If the pre-existing distribution of gold were normal and the credit systems of the world generally were based on the supplies of gold in the respective countries, then I should regard such a demand as a very disturbing factor indeed. The reason I do not regard it as a disturbing factor at the present moment is that there is in my view this surplus in the United States which could be obtained, so to speak, by a special arrangement.

14,211. In that connection you have had put before you that plan which you have already referred to for the establishment of a gold circulation in India by obtaining the credits for further gold in London and in New York and for a concurrent sale of silver. Would you be prepared to express an opinion as to the effect of the proposals for the sale of silver upon the countries which have silver interests, and in particular upon the United States?—Well, one knows generally that the silver market in the past has been rather a narrow market, and I should imagine that large sales of silver would certainly lead to a general fall in the gold value of silver, but that is a subject on which the bullion market could speak with very much greater authority than I can. I can only express a general opinion. I should think that, having regard to the world demand for silver, to dispose of a large amount of currency silver would be a very difficult proposition.

14,212. If any proposal for raising credits for gold in the United States were coupled with proposals for the sale of silver, that would be an undoubted circumstance which one might expect to have reactions upon the attitude of American opinion towards such a proposal?—I should not like to say, from my own knowledge, how far America is now interested in the value of silver. Obviously, American interest in the value of silver is very much less than it was 20 or 30 years ago. At the same time, I take it America would not look with favour to a serious depression of the silver market.

14,213. What circumstances have tended to the reduction of the American interest in silver?—Well, the fact, from the currency point of view, that silver has ceased to be really a matter of any importance, and the very large Government holdings of silver have been substantially reduced.

14,214. There is a question which I should interpolate here which I meant to ask you before in connection with the bank; that is, as regards the constitution of a bank of issue which is in control of currency. What in your opinion are the relative merits of the Continental system of the combination of the banking and issue departments and the British system of separate banking and issue departments?—I think the answer to that question really depends on the answer I gave to a question you put to me before. With the percentage cover, of course, it seems to me the only practical arrangement is the single department—I mean a banking department, which is also an issue department. On the other hand, with the traditional English system of the fixed fiduciary issue and pound for pound cover above it the separate issue department is really, I think, the accounting arrangement which reflects that system most intelligibly. I do not myself attach any very serious practical importance to the separate departments, but I think with a pound for pound cover the arrangement for separate issue department which keeps currency, so to speak, in an entirely watertight compartment from banking is the normal, natural and logical arrangement.

14,215. Would you explain to us why it is difficult to have a separation of the departments, if you have a percentage cover?—Well, the amount of your gold reserve with your percentage cover depends from day to day on the precise amount of notes in the hands of the public. The operations of your issue department could not be determined except by the returns of your banking department. You would have to hear every evening from the banking department how many notes were in the hands of the banking department in order to arrive at the reserve which you had to keep in your issue department, unless of course you treated your banking department, for the purposes of your percentage cover as the public. If you did that, then you would, no doubt, be able so to arrange your accounts by the control of the amount of notes in the hands of your banking department as to do very much what you liked with your percentage cover, so that that really would not be a practical arrangement. For the purposes of the percentage arrangement you must base your cover on the notes out of control of the central bank. That being so, the whole operations of the central bank (both issue and banking) really become part of the same machine.

14,216. Would not it be right to treat the notes issued by this issuing department to the banking department as the liability?—In that case the banking department by manipulating its banking reserve could, if it thought necessary, diminish a possible strain on the issuing department. I do not think the experiment of a separate issuing department with a percentage cover has, in fact, ever been tried. I cannot think of any case. The division between issuing department and banking department, certainly as regards large countries, is peculiar to Great Britain, and I have always regarded it as a corollary, so to speak, to a fixed fiduciary issue.

14,217. Is there any administrative impossibility in the banking department keeping the issuing department informed concurrently as to the total of the note issue?—None whatever, as far as I know; but I am not sure that a separate return of the banking and issuing departments in those circumstances, or a separate account, would serve any really useful purpose. The essence, to my mind, of the percentage cover system is to consolidate the whole of the currency action of the central bank. Indeed, most of the advocates of the percentage cover arrangement, the late Sir Edward Holden in particular, always treated that as the great merit of the percentage cover system—he always combined the proposals for the percentage cover with the abolition of the separate issue department.

14,218. Let me put a general question on this banking aspect. Under the Indian system hitherto the currency note issue and the control of the

currency has been the function of the Government. The Government has been the currency authority. We have had in evidence a strong recommendation in favour of the transfer of the control of the note issue to a central bank. What, in your opinion, are the advantages to be gained by such a transfer, in general?—I am in favour of the complete management of the currency and complete responsibility for the currency, which is even more important than management, being given to an authority independent of the Government in all countries, here as elsewhere, in normal times. I think that a very large part of the troubles which certain Continental countries have suffered in regard to currency would, in all human probability, have been avoided if they had had central banks with the same legal privileges which the Bank of England has in this country. On the other hand, it is not possible entirely to divorce the currency from the Government in times of national emergency, or in times of war, for instance. Then the Government is bound to take control, and in very serious credit crisis the Government has had perpetually to intervene even in this country. So that I should not class myself as an advocate of the theory that the Government should disinterest itself entirely from currency. Some of the advocates of the central bank system have gone almost to that length. But I do favour a system under which the Government should divest itself of what in the last resort is always a Government function, the control of the circulating medium, to an independent body of experts, constituting a central bank, and tell them; "We are giving you a free hand to manage this affair, and it is your responsibility not to get into trouble ". If they do get into trouble ultimately the Government will have to intervene.

14,219. As a specific advantage it is put to us, for instance, that the concentration of the banking and currency reserves in a single hand conduces to efficiency and economy. Is that a substantial argument in your opinion?—Well, that again, I think, depends on your currency system. With the purely automatic gold standard system which we had in this country before the war I think any kind of concentration of banking and currency reserves is a mistake. I am wholly in favour of the separation, in those circumstances, of the issue department and the banking department as in the case of the Bank of England, and I am wholly in favour of the currency reserve being maintained quite independently of the banking reserve.

14,220. That is a matter of accounting?—Well, in the case of the Bank of England you have a physical separation also.

14,221. But as a matter of administrative control and policy it is put to us that for the efficient serving of the financial interests of the country the control of policy as regards currency and credit ought necessarily to be in one hand, as the two matters are practically one?—The monetary policy—I mean the question of discount rate, and so on—is the lever by which the value of the standard is maintained. The lever must be operated, at any rate, by a banking institution. It is not always completely controlled by the banking institution. The Government operations in the short money market necessarily have a very important effect on the supply of credit, and sometimes a central bank cannot make its policy effective in the teeth of a particular Government policy. In those matters co-operation between the Government and the bank are essential in all cases.

14,222. If there be two levers, the lever of the bank rate and the lever of control of currency, it is put to us that those levers ought to be operated by one authority administering the policy from day to day with arrangements for co-ordination with the general Government policy. Does that appear to you as a substantial consideration?—Yes; I think it is if you are going to have a system in which there is any discretionary control of currency. The system which I advocate in normal times is a purely automatic system of currency. I mean certain things have to be done with regard to the currency on the basis of ascertained figures. What may be called the control of currency as a discretionary matter does not exist at all. That, I think, is the wiser system.

14,223. That is, such a system as we have now in this country?—That I should say was perhaps rather the pre-war system. I think that is true of currency proper now. ...

14,224. As distinct from the bank rate?—As distinct from the supply of bankers' money. The supply of bankers' money is a thing which, under present conditions is very much more a matter in the hands of the Bank of England than it was in the past. The very large holdings of the Bank of England in short-dated securities gives it an ultimato control of the money market very much greater than it had before the war.

14,225. Are you sufficiently acquainted with the existing constitution of the Indian currency reserve and the Indian gold standard reserve to express an opinion as to the policy which has been recommended to us of the concentration of those reserves into one?—No; I am afraid I have not sufficient detailed knowledge of that to express an opinion of any value?

14,226. I rather gathered you would be reluctant to answer any question as to the factors in Indian conditions which make it undesirable for an introduction there of actual gold in circulation.—Yes; I do not think any opinion I could express on that would have any real value, because I am quite unacquainted with India.

14,227. Is it possible to express any general opinion, apart from the circumstances of a particular case, on the assumption that you have a percentage reserve, as to the minimum percentage of gold securities which it is necessary and prudent to keep against the obligations of the currency authority?—I think that is the only thing that can be ascertained by very long experience. I think prudence requires that with any new system you should place your percentage in the first instance very high indeed so as to be prepared for any possible contingency. Then, as experience has been gained, you may be able to reduce it without danger; but it depends so much on the fluctuations of internal demand if you have gold currency, and also on the rapidity with which international conditions may change. One knows that India's internal trade is very largely influenced by the monsoons, and that it is subject to very violent fluctuations. The volume of external trade is liable to very extraordinary fluctuations as between one year and another, and therefore I think it is perfectly clear that with a full gold standard it would be prudent that India should keep a percentage of reserve on the percentage system very much higher than would he necessary, say, for a country situated like Germany or France. I do not take Great Britain because Great Britain has certain international ohligations which arise from the fact that the £ sterling is the basis of currency for other countries as well as Great Britain, which makes the position wholly exceptional. I should have said that a percentage reserve which would be sufficient for an old country in Europe would certainly be insufficient for an independent gold standard in a country like India.

14,228. Can you give any arithmetical expression to the difference which you think it would be necessary to make in view of the special circumstances of India?—No; I think it is extremely doubtful. With all these currencies, I suppose in establishing a new system, one would try to aim at something not less than 40 per cent., or from 40 per cent. to 50 per cent., and reduce it as opportunity offered afterwards.

14,229. That is with countries which have had a gold standard?—No. After all, these percentages are largely conventional. I do not think there is any particular scientific value in a particular percentage. Indeed, one object of your gold cover is to create a feeling of confidence. Therefore, you must choose a

figure which will carry confidence to people's minds. If you are embarking on a new experiment, it is well to put the figure rather high.

14,230. (*Sir Henry Strakosch.*) With reference to the practice in this country at the present moment, I believe you mentioned that the Bank of England, without being legally compelled to give sovereigns, would give sovereigns if demanded. Is that in fact the case?—I have never tried.

14,231. Is it not rather that the Bank of England is prepared to give sovereigns for export, but not for internal use?—I do not know. I think that question ought really to be put to the representative of the Bank of England. Anything I said would be in the nature of hearsay evidence.

14,232. I rather understand that is the case to judge from returns which are regularly made by the Bank of England where they state that so many sovereigns have been handed out for shipment to Singapore or elsewhere?—I think the position is this. The Bank of England is bound to provide gold, under the new law, in exchange for notes. It is not bound to provide sovereigns. But if a person who desires gold in exchange for notes finds it convenient to take sovereigns, and the Bank of England finds it convenient to part with sovereigns, of course the Bank of England will give that person sovereigns instead of bullion; but I do not think that the Bank accepts a practical—it is certainly not under a legal—obligation to provide sovereigns even for export.

14,233. Then with reference to the merits of a percentage gold cover system or the fixed fiduciary issue system, that is to say, the merits of the Continental or Federal Reserve system and the British system, you said that for this country the fixed fiduciary issue system is the preferable one; but is it not a fact that this system is far less elastic than the percentage cover system?—Well, that would embark us on a rather long discussion. Of course elasticity or inelasticity depends not so much on the actual currency arrangements as on the credit arrangements immediately behind it. The effect of an export of gold in this country on the supply of bankers' money is a good deal less acute than it might otherwise be owing to the separation of the two departments of the Bank of England, and the fact that the reaction through the banking department provides a sort of buffer between the issuing departments of the banks generally and the supply of credit. I think you get the elasticity which is wanted in the British system from the interposition of the banking department of the Bank of England and its credit creating machinery, between the rigid operation of the issuing department and the general supply of money to the market.

14,234. And, I take it, the great development of Joint Stock Banking and the system of payment by cheques?—Well, that operates both ways. The serious effect of an expansion or contraction of currency in this country now is felt really in the supply of bankers' money.

14,235. That is to say, the expansion and contraction in this country takes place to a far greater extent in cheque money or bankers' money than in notes?—Yes; but the contraction in bankers' deposits in the Bank of England immediately affects the amount of cheque money generally; that is to say, the banking deposits, because according to the ordinary conventions the banks have to regulate the amount of their deposits according to the amount of cash reserve, including bankers' credits to the Bank of England.

14,236. Might it not be said that so rigid a system is possible without inconveniencing the country simply because the credit and cheque system is so well developed in this country?—Well, I am not sure that I agree there. I think the interposition of the banking department of the Bank of England between the Joint Stock Banks and the issuing department certainly mitigates the effect of expansions and contractions of the currency; but I think the fact that the circulating medium of the country is so largely a cheque medium, in spite of this buffer of the banking department of the Bank of England, means that changes in the volume of currency act very severely on the supply of bankers' cash. I think that the fact when you have a contraction its effect upon the supply of bankers' cash is multiplied, so to speak, in terms of deposits to perhaps nine times, the existence of the cheque system rather tends to intensify the effect of currency contraction.

14,237. Both ways?—Both ways—to intensify it rather than to mitigate it; but you get mitigation from the interposition of the banking department of the Bank of England.

14,238. Would you please tell us why you think that a similar system would probably be preferable for India, having regard to the fact that India at the present moment is not endowed with a very adequate banking organisation?—Well, I think if India is to have a gold standard of her own independent of anything else, it is essential for the working of that gold standard that the forces that are required to maintain the gold reserve and to adjust the disturbances in international equilibrium should operate with very great certainty and very great precision. As I was explaining a minute ago, in India they will operate very largely directly on the circulating medium. Therefore, you do not get that multiplication in their effect which you get in this country through the bankers' reserves and the Bankers' cash. Therefore, I think if India is to have an independent gold standard it is necessary to have an arrangement under which fluctuations in the gold reserve will act very immediately on credit conditions. I hope I have made myself clear.

14,239. Yes, I quite follow you. But would not the effect be of making expansion and contraction much more difficult. As you know, India's demand for currency fluctuates very widely. During the busy season a great deal of currency has to be supplied if money conditions are not to be disturbed, and in the slack season a great deal of currency comes back from circulation. In such a system as you envisage the issue of currency would have to take place on a 100 per cent. gold cover which would have to be imported, and in the ordinary course of things could only be imported when the export goods are leaving the country, that is to say, when they have been reaped. In the interval the demand for currency is there. How do you think that could be supplied if it is all to be issued only against 100 per cent. gold?—I take it that could be met by allowing a certain amount of fluctuation in your gold reserves, that is to say, when the normal seasonal demand for currency was the highest.

14,240. But you could not do that?—No, perhaps not.

14,241. All your notes would be issued on a 100 per cent cover except the fiduciary part?—I think certainly if that seasonal fluctuation is very large, that is an argument for some special arrangement for increasing the fiduciary issue during the period of seasonal demand, or possibly for adopting some modification of the percentage arrangement, rather than the pound for pound cover. I think that is true. This is an aspect of the question which has rather come to me at a moment's notice, but I should rather prefer, speaking off-hand, an arrangement for a special seasonal increase of the fiduciary issue rather than departing from pound for pound cover. I do not much like the percentage system.

14,242. Because of its accentuating effect upon expansion and contraction?—Yes.

14,243. You would suggest that there should be latitude given for seasonal expansion. As you know, the expansion stands in a definite relation to the volume of the harvest and the money value of the harvest. Would it not be very difficult to lay down a rule under which that expansion is to take place?—I think it would be very difficult.

14,244. Would not the balance of advantage lie on the side of a percentage system in those circumstances with, it you, like, stringent rules for the size of the gold cover to be maintained?—Yes, I think probably it would. I am all in favour of simplicity in currency arrangements. Any kind of arrangement that is unduly ingenious, I think, tends to break down by its own weight.

14,245. Then with reference to the surplus gold in the United States, you said that if £100,000,000 sterling were withdrawn now or in the immediate future, that would not affect the world price of gold, that is to say, gold commodity prices the world over, because America has a great deal of redundant gold. If the tendency continues for European countries, and possibly countries in Assia, like China, to adopt the gold standard and gradually to draw away from America that surplus in order to restore their reserves, would not that have a pronounced effect upon gold prices if the gold production does not keep pace with it?—Undoubtedly. If the world generally takes to what I may call hoarding gold, as a short expression—you understand what I mean—and each country when it returns to the gold standard adopts a very safe system of gold reserve, I have no doubt that the general world demand for gold will rapidly overtake the supply, and we shall see a tendency all over the world towards falling prices. I do not think you can get away from that.

14,246. Could you tell us whether the tendency now in Europe is for countries, which have temporarily departed from the gold standard, to restore it and to restore their gold reserve?—Well, the only country, I think, that has made any demand on gold that is very material from the point of view of total volume of gold up to the present time is Germany. Germany has made, as I said before, very much larger demands than I personally had expected, but I think that is partly under American inspiration.

14,247. You do not know what the other countries are doing which have restored their currencies to gold?—I expect you have better information on that subject than I have. My impression, subject to your better knowledge, is that countries like Austria have absorbed a certain amount of gold, but the things are on so small a scale there that from the world point of view it is not very material.

14,248. I had in mind Austria and Hungary. Hungary in particular has been absorbing gold lately?—Yes. My own impression is that the fashion at the moment is for these countries who have had their currencies very seriously disturbed to say: "Well, let us be on the safe side. Let us supply ourselves very well with gold reserves, so that the follies from which we have suffered will not happen again." I think as they get a little more nerve they probably will not make quite the same demand on the gold supplies of the world as they incline to do at the moment. That is my feeling about it. Countries like Austria-Hungary, which have parted practically with the whole of their gold, had to re-create their gold reserves. Take France. I cannot imagine that when France ultimately returns to the gold standard she will need an ounce more gold than she has at the moment.

14,249. Then, one other question about the basis of stahilisation of the Indian currency. You are probably aware that the rupee has been practically stabilised at 1s. 6d. for the matter of a year?—Yes.

14,250. The pre-war par being in the terms of sterling 1s. 4d.?—Yes.

14,251. There is a divergence of view as to the point at which it would be best for the rupee to be stabilised. What would be your own opinion about that?—Well, I have a very definite opinion as to the proper policy to be followed in all cases of stabilisation of currency. I do not think that from the point of view of the ultimate state of affairs that point matters at all. I do not think that ultimately it will either benefit India or be detrimental to India if the rupee were 2s. 0d., 1s. 6d., 1s. 4d., or 1s. 0d., that is to say, when things have adjusted themselves to the new value. Therefore, it seems to me that the only material consideration in deciding on a figure is what figure can be reached given the *status quo* at the moment with the minimum of friction and the smallest degree of inequity to existing interests. If you have had a rate of exchange persistent over a fairly long period, I am pretty clear in my own mind that the proper rate at which the value should be fixed should be somewhere in the immediate neighbourhood of that rate of exchange. You will then not interfere with the expectations of the people who have fairly recent contracts. On the other hand, if your stabilisation is of recent date, the right figure might be one intermediate between the current rate and, say, the rate that was current 18 months before. There are some cases in which I should be disposed to take my rate possibly on a three years' average of exchange. In other cases I should take it at its current rate, particularly if it was a stable rate. I might propose to go a little above or below that owing to special conditions and considerations of expediency in relation to (say) the public debt, or something of that kind, but I certainly should not try to adopt on any theoretical ground an arbitrary rate differing very widely from the rate which the experience of the merchants has established.

14,252. Would you say that stabilisation of the external value of the rupee for a year at 1s. 6d. must have conduced to an adjustment of internal prices to that external value? Would you say that a year is a sufficiently long period to establish that equilibrium?—I should not like to say that quite dogmatically. I should want to examine very carefully the circumstances that had been maintained through that year. There might have been special circumstances that tended to affect the exchange rate or the external value, that had not been fully reflected in the price level.

14,253. But on the whole you would be inclined, if the external value had been stabilised for a sufficiently long period, and if there were no special reasons against it, to stabilise at that point?—I should start with a strong presumption in favour of that point.

14,254. (*Sir Maneckji Dadabhoy.*) I understand that, in your opinion, the fundamental basis of currency policy in England even to-day is free coinage of gold and free convertibility?—Not free coinage of gold in England to-day, but free convertibility of the legal tender money into gold bullion.

14,255. Into gold bullion only?—Yes.

14,256. Not free coinage of gold? I understood at the commencement that free coinage of gold was included in that category?—No; that was the pre-war system.

14,257. It would not be correct to say, as some of the witnesses have told us, that England has only temporarily abandoned the policy of a gold coin currency?—It is impossible to prophesy as regards the future. I think for sentimental reasons we should be very glad in this country to give anybody who desired to have gold coins, gold coins on demand; but I do not think we regard it, as I said in my evidence in chief, as being of any very serious importance from the economic and financial point of view. But we have our traditions, and the British sovereign is regarded with very great affection by the people, and if it could be given back to them, so to speak, without serious loss, I think everybody would welcome it.

14,258. I want to make the position absolutely clear. Am I right in inferring that this exchange of gold is not only given for foreign export purposes, but also for internal currency?—At present, of course, it is the settled policy of the Bank of England and the Government not to encourage the internal circulation of gold. The holder of a

Treasury note or a Bank of England note, has no legal right to obtain the gold coin in exchange for that note at the Bank of England.

14,259. But in practice it is given without objection if a party asks for it?—Well, I think that question should be put to the Bank of England representative rather than to me. My impression is that the Bank would be very unwilling to refuse gold coin to a reasonable extent to anybody who came and asked for it over the counter; but I think you would have to take the trouble of making a personal journey to the Bank in order to get that gold coin.

14,260. Then you stated that in case India should go on the gold standard it should adopt a fixed fiduciary circulation, as it would be a rigid brake on inflation. Can you enlighten us as to the limit of this fixed fiduciary circulation?—The amount of fiduciary circulation?

14,261. Yes. As I said, I am not prepared to speak definitely in relation to Indian conditions, but there is a general principle which applies to all countries as regards the proper maximum fiduciary circulation, and that is an amount which is less than the volume of currency which in the most unfavourable conditions of previous experience has been retained in circulation; that is to say, your fiduciary circulation ought to be well below the ascertained minimum needs of the community.

14,262. But to what period would you extend that? Would you extend it to any definite period to ascertain the circulation?—Where the population is growing and conditions were altering you would have to make allowances, but in any case it is a figure which must be fixed on the safe side. In determining the fiduciary circulation on the principle of a rigid currency you must say what is the lowest quantity of currency which it is conceivable that the community should be able to carry on with. Then your fiduciary issue must be fixed below that figure. It would necessarily be a guess to make a precise estimate, of course.

14,263. Is any prohibition or limit fixed in England to the utilisation of the reserve so that it should not go below a certain figure?—No; the last £ can be called upon if necessary.

14,264. The last £ is available for that purpose if they want it in this country?—Yes.

14,265. You also stated in answer to the Chairman that the gold exchange standard was admirably suited to the Indian currency system before the war, and you further added that it is possible to argue that if India had had the gold standard before the war it would not have suffered losses to the extent that it has suffered them. In view of that opinion, am I right in concluding that you would not recommend a gold exchange standard for India, considering the dislocation in trade, and the substantial losses India sustained after the war?—I am in favour, most certainly, as regards India, and so far as I am a judge, of getting back as nearly as possible to the pre-war conditions; that is to say, a standard which is based on sterling. I think, on the other hand, that India would be well advised to maintain on her own account very considerable gold reserves, partly, as I say, as a contribution to the maintenance of the joint gold standard of Great Britain and India (as a duty she owes to that standard), and partly from the point of view of her own protection.

14,266. Then, on the whole, you think it would be to the advantage of India to go on to the gold standard?—Not a completely independent gold standard. I should myself recommend a sterling exchange standard, plus what I may call an emergency gold reserve.

14,267. But if she is in a position to maintain gold reserves, and also to obtain gold in the market, and also able to fall back on the gold hoards in India, would you then agree that she should have a pure gold standard?—Would you mind saying what you mean by "a pure gold standard"?

14,268. I mean a gold standard as distinct from the gold exchange standard as it was understood before the war.—I should certainly be in favour of India maintaining a considerable part of her currency reserves in the form of sterling rather than of gold. To that extent I should adopt the exchange standard; that is to say, that if India wishes to maintain her unit of value I should think she would be better advised to take the initial action necessary towards maintaining it through the realisation or the increasing of sterling reserves rather than direct dealings in gold. To that extent I am in favour of the exchange standard. On the other hand, I think that if India practically relies on the gold reserves of the United Kingdom, it is reasonable enough to expect that India should herself maintain a certain amount of gold for use on occasion as a buffer. If the Indian reserves of gold, say, at the time of the war had been larger, it might have been possible—though here again I speak with very great diffidence, because I have not followed the details of the matter—to have prevented the difficulties which sterling experienced during the war, and more particularly immediately after the war, from reacting as acutely as they did on India. The independent gold reserve of India would have been extremely useful at that time; but though a currency system ought to be adapted as far as possible to obviating dangers in times of serious world-crises such as the war, after all the main use of a currency system is to function normally in normal times of peace. Apart from these serious cataclysms, I think the best and most economical system of currency (and after all economy is a matter of some importance to a community such as that of India) is one that depends primarily on a well-established world standard of value, such as the pound sterling.

14,269. You have stated that if we require 25 million to 30 million in order to enable India to go in for a gold standard without gold currency, the liberation of that amount by the United States would not seriously affect the gold position, and that it would be available?—That is my impression.

14,270. Am I right in concluding that in your opinion America would be glad to be relieved of the embarrassment caused by holding an enormous surplus of gold which she could not possibly absorb for some number of years for internal purposes?—My own impression, from what I have seen from the reconstruction of European currencies, and so on, is that America is extremely dissatisfied with the volume of idle gold held in America, and that it will be agreeable to America that an outlet should be found for a part of that surplus elsewhere.

14,271. And it would be agreeable that an outlet should be found, even taking into account the small injury which would result from increased prices in America itself?—I do not think comparatively small fluctuations in the gold holding of America are likely to affect American prices. The supply of credit in America depends so much on the more or less arbitrary action of the Federal Reserve Board that a comparatively small inflow or outflow of gold is not likely to have any appreciable effect on internal prices. That is the way I read the situation.

14,272. There is no real danger of increasing prices? It is only an apprehension?—I do not think gold movements of that kind are likely to affect world prices. I give that opinion for what it is worth. I may be quite wrong.

14,273. In case India wants these 25 million or 30 million of gold, and she has to float loans in this country, will there be any difficulty about obtaining credits either in London or in India, in your opinion?—I do not know that I am very competent to express an opinion on that.

14,274. But you will say this, will you not—that part of this gold can be easily obtained from the United Kingdom?—I think a part would be available from the production of the South African mines which normally comes here, and which, in the absence

of demands from elsewhere, such as India, would probably be sold to America.

14,275. In answer to the Chairman, in discussing the silver question, you expressed the opinion that if a large quantity of silver coins were disposed of it would cause some difficulty, and the price would depreciate. I presume that in expressing that opinion you have not taken India's conditions into consideration—of which you yourself stated at the beginning of your evidence that you had not adequate knowledge?—I only expressed that opinion very diffidently. I cannot pretend to be an expert in tho silver market. I cannot form any impression of the amount of silver which the market could absorb without seriously affecting prices. It would be possible for the Commission to get very much better opinions on that subject than mine. Indeed, I am not sure really that I should have expressed an opinion at all.

14,276. What I mean is that you are not aware of the potentialities of India for absorbing silver which would be dislodged by the currency?—I am not quite sure whether I follow you. I think the point was this: what would happen to the silver at present in the form of coined rupees if it were melted down and disposed of?

14,277. Yes—how it will affect the world price of silver?—I was assuming that a market would have to be found for that silver outside India. I do not know how much, if any, of that silver India would be prepared to absorb as metallic silver. That I know nothing about.

14,278. Speaking about the issue of notes, you say you are in favour of the control of the currency being given to an independent authority in normal times. At the same time you add that Government should not cease to interest itself in the currency system. Am I to gather from that that you favour the handing over of the currency system to a Central Bank, provided the Government keeps the power of superintending its control in times of crises, or anything like that?—I think, in normal times, the less Government interference you have in currency matters the better. At the same time, I am just a little afraid that, owing to the fact that Governments throughout the world have of late years made rather a mess of currency matters, that very sound doctrine may be pressed to the other extreme, and that people may say that Government has no concern in currency at all. Of course, the Government must lay down the law which governs the currency in any case. In times of national emergency, as was shown in this country at the outbreak of the late war, Government must interfere. I am all in favour of keeping the interference of the Government within the narrowest possible limits; but at the same time I am not in favour of the ideas, which are tending to grow up now to some extent in some quarters, that the Government should simply turn a blind eye on currency and say it is not the Government's concern. I think the dangers of that are almost as great as the other policy of the Government trying to regulate what I may call the commercial and technical side of currency.

14,279. You are aware of the present constitution of the Imperial Bank of India, I presume?—Generally speaking, yes.

14,280. Suppose if we are not in a position to go in for a Central Bank in the sense in which Central Banks are understood, would you agree to the present Note issue being handed over to the Imperial Bank of India, provided Government maintains control and supervision over all the work and can direct the main financial policy of the Bank?—I hardly like to express an opinion on that without much more complete knowledge of the organisation of the Bank than I possess, though I imagine that a Bank with the constitution of the Imperial Bank of India could easily by Statute be adjusted to the position of a Central Bank. I should not be in favour of creating a sort of separate department of a Bank which would act under Government supervision. I think that is a great mistake. I am all in favour of—indeed I think the main recommendation of entrusting the control of currency to a Central Bank is that the management of the Central Bank should feel a commercial responsibility for the currency. If they are under the control of an official adviser that commercial responsibility tends to disappear.

14,281. Would you in that case still reserve the power of the issue of the Notes to the Government of India, or would you prefer that the Bank should issue in its own name?—I do not think that is of very material importance. I think the question of whether the Note should be the promise of a Bank to pay or the promise of a Government to pay is largely a matter of public sentiment. I can imagine that in some communities the Government Note would be regarded as a safer thing than the Bank Note.

14,282. That question should be decided by public sentiment?—I think so. I do not think that is necessarily connected with the management of the issue. A Central Bank might have complete control of the management of the issue but obtain its actual Notes from a Government currency commissioner.

14,283. In answer to Sir Henry Strakosch, on the question of the stabilisation of the rupee, you stated that the figure which we should fix should be reached with the minimum of friction and the smallest extent of injury to existing interests. May I request you to amplify those "existing interests"? Those existing interests may have been of some duration. They may have been inherited. There may have been a period over which those existing interests were spread?—Any change in the value of the currency unit tends to alter the comparative position of creditors and debtors, speaking generally. If your currency unit appreciates in value, you increase the burden of existing debts. If it diminishes in value you diminish the burden of existing debts. As regards a long-term debt, if your currency unit has depreciated, the creditor has suffered consistently over a period of years. On the other hand, he may have capitalised his loss and transferred his credit to someone else at the diminished value of the credit. Therefore, if you put your currency unit back to its old value you are making restitution to a person who has got the old credit at a bargain, and the old creditor gets nothing back. So that the tendency is, over a series of years, for the losses of the creditors on a depreciated currency unit, to become irremediable. Therefore the material thing is to see that the people who have made recent contracts, so to speak, should neither gain nor lose according to their reasonable expectation. I should therefore not be very much concerned as to what the currency may have been worth four or five years ago. Of course, with a depreciating currency one feels very great sympathy with the old creditor who has lost his money. With an appreciating currency one feels perhaps even greater sympathy with the debtor who is asked to pay in substantial value a good deal more than he contracted to pay; but owing to the fact that the vast majority of debts are either new debts or old debts which have comparatively recently changed hands, the line of least resistance, and I think also, the line of the minimum of inequity, is to stereotype as nearly as possible at the point reached.

14,284. When you refer to this minimum of friction, do you refer to the friction caused to internal prices or to worldwide prices?—I was using the word "friction" then rather in the moral and political sense—the rate which will cause the least general dissatisfaction.

14,285. And not in the sense of affecting the internal prices or internal adjustments?—I ought to have said at the time that I think, in considering your rate of stabilisation, you must bear in mind not only the current exchange, but the relation of internal prices to that rate of exchange. That is an important qualification. I do not think you can turn a blind eye on to it. I really dealt partially

with that in my reply to Sir Henry Strakosch, when I said I wanted to be quite sure, before I took the rate of exchange, that it was a rate of exchange, which had become really stereotyped. A part of the stereotyping, of course, is the adjustment of internal prices.

14,286. You advocated the following of theoretical or arbitrary grounds, and one of the suggestions you made was to take a three years' average?—I said in certain conditions. I mean, if the exchange did not appear to me to represent the normal stable condition, then that is an expedient I would try.

14,287. Have you special reasons for taking this three years' average?—No. I took it merely by way of illustration. I said I could conceive, in certain conditions that the rate at which the exchange stood for the moment, or even if the rate had been comparatively stable for a year, would not be the most suitable rate, *e.g.*, if internal prices were very much out of relation to that exchange rate. Then, having come to the conclusion, on general grounds of that kind, that the existing exchange rate was not a satisfactory system, I might try whether a three years' average of exchange might not give me a figure nearer to the figure which a general impression of the whole conditions made me regard as being an equitable figure.

14,288. You are aware that exchange in India is more or less manipulated. Even during the last eighteen months but for the manipulations of the Finance Department of the Government of India, probably the exchange would have gone to 1s. 7d. or 1s. 8d. Latterly it had a tendency to fall below 1s. 6d. but by an announcement of the Government of India that they were going to sell reverse councils, they have been able to prop up the exchange. In view of those circumstances, would an average be of any value?—I think it is a little difficult to answer I cannot say how far I could concur in the view that the exchange rate has depended on the definite policy of the Government of India. Without further knowledge of the circumstances I could not really express an opinion as to that; but even if the actual rate has been determined to a large extent by the policy of the Government of India, it is quite certain that the reactions of the rate, once it has been established, on prices and so on will have been very considerable, and though the rate may in the first instance have been fixed more or less arbitrarily, in course of time the rate so fixed arbitrarily becomes the natural economic rate. To what extent that has happened I am not in a position to say. If it has happened pretty completely, then I think that is the right rate to take. If it has not happened completely, then probably the best rate differs a little from that rate, and I should make such adjustments as I could, after consideration of internal prices.

14,289. (*Sir Alexander Murray.*) In reply to Sir Maneckji Dadabhoy, you said it might be possible to modify the constitution of the Imperial Bank so as to make it suitable as a central bank. As you know, there are different types of Central Banks. There is the type of the Bank of England, largely a private institution, not doing much commercial business. There is the Continental type with a measure of Government control doing, to a certain extent, commercial business, and there is the United States of America Federal Reserve system. In India the Imperial Bank is the result of an amalgamation of three Presidency banks, as you are aware, and it was formed as the Imperial Bank of India with an obligation to create a hundred new branches in order to extend banking facilities in India. Objection has been taken to the turning of the Imperial Bank into a Central Bank for the reason that it is a private institution and at the same time it does a large amount of commercial business. Can you express any opinion as to the suitability of the particular type of Bank we might aim at as a Central Bank for India, keeping in view the existing conditions in India?—I am not sure really that my knowledge of Indian conditions, or of the precise constitution (of course, I know generally the lines of the constitution of the Imperial Bank) would make my opinion of very much value. However, the line on which *prima facie* I should be disposed to work, if the Imperial Bank is to be made a Central Bank, would be the creation within the Imperial Bank of some special Committee of Management which should take charge of that part of the bank's activities.

14,290. I think in reply to Sir Maneckji Dadabhoy you indicated that it would not be advisable to have one section of a bank doing a particular line of business?—I see no objection at all to a certain degree of divorce between what one may roughly call the Issue Department and the Banking Department. I am wholly in favour of that.

14,291. You think it would be impossible to so modify the Constitution of the Imperial Bank that it could carry on its commercial activities and the development of the banking interests in India, while at the same time becoming a bank of issue, or responsible for the control and management of the currency?—I think it is very desirable that a central bank should have considerable commercial activities. The commercial activities of the Bank of England, though not very great in volume, are very wide in range; and I think that those commercial activities have been extraordinarily useful to the bank in its functions as a Central Bank. The advantage of a Central Bank over a Government Department is, after all, that it is a bank which comes into contact with the commercial community.

14,292. It has been suggested in connection with the creation of a gold standard in India that it might be advisable to limit the full legal tender of the rupee which, as you know, is a token coin. Can you express any opinnon as to the possibility of having a gold standard in India, and at the same time having the rupee circulating as full legal tender under the control of Government, who would be responsible for limiting the issue?—I attach very little importance myself to the limitation of the amount for which subsidiary coins are legal tender. The essential point, of course, in regard to a subsidiary currency is that the total volume of the currency should be sufficiently restricted to prevent its ousting the standard coin, whatever it may be. So long as the volume of the subsidiary currency is kept within proper limits, then the question whether there is or is not a limit of legal tender, seems to me to be entirely immaterial.

14,293. Keeping in view your knowledge of Indian conditions, and the fact that the rupee has been full legal tender for all these years, do you think it would be possible to continue the rupee as full legal tender under a gold standard system?—I see no objection provided that the total volume of rupees is kept within reasonable limits.

14,294. (*Professor Coyajee.*) I am sure that when you spoke of a "parasitic" standard, you did not mean it at all in any derogation of the gold exchange standard? It is more of an indirect gold standard, is it not? A gold exchange standard is to be taken more in the light of an indirect gold standard?—It is simply an indirect gold standard so long as what I may call the host of the parasite remains on the gold standard.

14,295. Or, as you described it later, a joint gold standard of the two countries?—My use of the word was perhaps rather unfortunate, although, as I said, I used it in no derogatory sense.

14,296. You observed that if India adopted a gold standard of its own, then if a percentage system of reserve was adopted, the percentage would have to be very high, because we are going in for the first time for a gold standard?—Yes,—and, of course, there is the additional reason, that as far as I understand Indian conditions, the currency requirements of India are subject to very violent fluctuations.

14,297. If, on the other hand, the other system, namely, the fiduciary-cum-fullcover system was adopted, then, of course, to start with, the fiduciary portion would have to be very small, because we do not exactly know what the normal absorption would be?—The size of the fiduciary portion would have to depend very largely on your policy in regard to your rupee issue. I have touched on that in answers to questions which were put to me just lately. The more you maintain your existing rupee circulation, the less must be the fiduciary portion of the gold standard money. If India is adopting the principle of an entirely independent currency, certainly it is very necessary to err, if at all, very much on the safe side.

14,298. Therefore the fiduciary portion ought to be small?—Yes, at any rate until experience has been gained.

14,299. So that in either case, starting *de novo* with a gold standard, there would a certain tendency to inelasticity. If the percentage system is adopted, then the percentage has to be large. If the other system is to be adopted the fiduciary portion has to be small. Therefore a certain amount of inelasticity must prevail during the early stages of the adoption of the gold standard on her own?—I suppose you had the same kind of inelasticity in reality with the exchange system before the War?

14,300. Except this—that we knew by long experience how big the going out and coming back of the silver currency was, whereas with gold currency we should not. It has been argued that, owing to the unprecedented burden of debt on Great Britain, it might be difficult for that country to maintain parity between the dollar and the sterling. Consequently it has been argued that the time is not yet ripe for India to stabilise the ratio between the rupee and the sovereign. What is your view of that position?—My view of the position as regards the sovereign is this—that whatever may be the financial difficulties of this country, our interests are so much bound up with international trade and international finance business, that the maintenance of the value of our currency is our primary financial interest, and I think we have to make whatever sacrifices may be necessary to secure that maintenance. Personally I feel not the least misgivings about it. It may be that our financial difficulties will lead to a general reduction in the standard of living in this country and very widespread distress; but so long as organised government goes on in Great Britain I feel no doubt whatever that the full gold value of the sovereign will be maintained.

14,301. (*Sir Purshotamdas Thakurdas.*) You said that the pre-war standard of India was the sterling exchange standard. Until 1914 it was understood to be gold exchange standard and the sterling exchange standard came about with a depreciation of sterling from gold. Therefore what was understood to be gold exchange standard suffered when sterling depreciated from gold?—That was so.

14,302. It was called gold exchange standard no doubt because it was based not on gold but what was believed to be gold securities. When however sterling ceased to be at gold point India was in the difficulty that the reserves intended for the maintenance of the gold value of her currency were no longer realisable in that value. Therefore India then shared the fate of sterling without that risk being either understood or foreseen when the gold exchange standard was evolved. Thereafter India's reserves got linked to sterling, and as sterling departed from the gold point, the reserves which were invested in sterling depreciated from the gold point too?—Of course there were special circumstances in connection with the balance of Indian trade which had disturbing influences, and at one period the rupee, so far from depreciating with sterling, actually appreciated in terms of gold.

14,303. From the point of view then, of India, do not you think it is rather undesirable to link the rupee with anything but gold?—It is purely a choice of risks, I think. Certainly if a catastrophe happened to the world, like the catastrophe of twelve years ago, it is conceivable that very much the same thing might happen to sterling again. On the other hand, as I pointed out a moment ago, the troubles from which India suffered on that occasion, though no doubt partly due to depreciation of sterling, were due to a very large measure to other economic considerations. For a long period the real trouble of India was not that her currency was depreciating, but that it was appreciating at an inconvenient rate; and that would probably happen again in the case of any catastrophe in which the Western nations of the world were involved, whether India had a gold standard or a sterling standard. I am not at all clear that the currency troubles from which India suffered during and after the war were primarily due to the fact that her currency was linked with sterling instead of being independent. I think a good many of these troubles would have happened anyhow. On the other hand, I do think that the possession of more adequate gold reserves by India would undoubtedly tend, whether you have a full gold standard or a standard linked with sterling, to safeguard India from any danger that might arise if sterling got into trouble again. Apart from those catastrophes, however, we have to consider what happens under normal times, with the world working ordinarily. There, it seems to me, India has an enormous advantage through adopting a sterling standard rather than a gold standard on the ground of economy, because the reserves necessary to maintain your currency at its full value—which must in the special circumstances of India in any case be very large—are productive reserves invested in the London market in the case of the sterling standard in the main, while in the case of gold they must be metallic gold which is locked up and non-productive. I am trying to look at the thing, as far as I can, quite impartially, though naturally one looks at it with English eyes, and rather insular eyes. I am trying to look at it quite impartially, and what I should say generally would be that, in normal times, the advantages, from the point of view of economy and facility of administration, of the sterling exchange standard are enormous. It has certain risks for India in times of emergency, but those risks might, I think, be guarded against almost as adequately by the keeping of a moderate gold reserve in addition to the normal sterling reserves, as by the adoption of a full independent gold standard. That is my general judgment.

14,304. That precaution would be much more complete with a full gold standard, would it not?—Naturally.

14,305. Therefore a moderate gold reserve held by India, would, in case of any difficulty to sterling, be a bagatelle compared with what would be required to support sterling?—That depends entirely on conditions. If the threat came to sterling, as it did in the course of the last war, through this country being involved in an international struggle which made an enormous drain on its resources, then, with a very moderate gold reserve, if India herself was not involved and her economic position was satisfactory, India could if she saw fit, go for the time being at any rate on to the purely gold standard, use her supplemental gold reserves, and for the time being submit to the big depreciation of her sterling reserve, which would remain idle until times mended. Suppose that policy had been adopted by India in the time of the late struggle; suppose India had not followed the depreciation of sterling (in practice she did not) and suppose she had made it a deliberate policy to maintain the gold standard and husband her sterling reserves until such time as sterling recovered she would have incurred no loss and would have been actually as well off as if she had had the full gold standard.

14,306. That was not feasible, was it?—As I say, I cannot speak with any detailed knowledge of Indian conditions, but I take it that the actual disposable

gold reserve of the Indian currency at that time was comparatively small.

14,307. Then the gold reserve which you recommend, in what appears to you to be the ideal system namely, the sterling exchange standard—*i.e.* investments in sterling and gold for emergency purposes—would in any case not be of much use to England, because the quantity of gold which India would have would prove very small compared with what would be required to support sterling. Everything counts, of course, but it would not be appreciable, would it?—Speaking for the English point of view I would say this. Many countries have taken advantage of the high reputation of sterling as an international medium to base their currencies upon it. Quite apart from India, a good many countries have done that. Before the war Greece had an exchange standard based on sterling. The new countries are doing it. Part of the reserves of the Reichbank are held in sterling and part in American dollars. I would very much like all those countries to make an adequate contribution to the gold stock on which sterling, and ultimately their own currencies, to a large extent depend. But one cannot require them to do it, and I think this country will have to face the obligation of maintaining the value of its currency in its own interests and in other people's interests. It is not entirely a quixotic action, because the fact that sterling occupies that position brings to this country very profitable business, and the profits of that business can be set against the costs of maintaining the reserves. The maintenance of these reserves for the world in general is no mere generosity on the part of Great Britain; I am not pretending that at all. It attracts profitable business, and this is part of the outgo in connection with that business.

14,308. The ground which you urge about economy is one which is common to all countries, but very few countries fall back on that economy in their currency systems, do they? Always their first consideration is to have as much gold as they they can, and then when they have enough of it, they turn their eyes to interest on securities?—Yes. This country has always been extremely economical as regards gold reserves. For many decades we did the largest international trade in the world on what most people regarded as a wholly inadequate gold cover.

14,309. You would not recommend India to keep a very keen eye on the interest that she would earn?—I should recommend India and any other country only to carry the minimum amount of idle gold necessary for safety.

14,310. You would concentrate your attention first on safety rather than on interest on reserves?—Yes.

14,311. You said that if India went on to a gold standard and absorbed gold that she would not, in your opinion, be upsetting world prices or conditions, but would help the ultimate normal adjustment which will take place when America has parted with her idle gold?—What I wanted to indicate was this. I thought that the stocks of gold in America were, for the time being at any rate, so much in excess of American needs that very large amounts could be taken by India or by other countries, with the result merely that America would adjust her credit policy to compensate for this loss of unnecessary gold, and there would be no disturbance of prices,—at any rate no disturbance beginning at the American end. Of course that process can only continue until the surplus stock in America has been absorbed. When the stock of gold in America has fallen to the point at which it provides only an adequate metallic basis for the credit structure of America, then you get the situation of what you may call a world free market in gold. If after that new demands arise anywhere, unless there is a corresponding increase in supply through the development of new gold mines, and so on, the tendency will be that the existing stocks of gold in relation to the demands on them are reduced, and you must get a fall in world prices.

14,312. The stock of gold in America at the moment is considerably bigger than the amount which India can want or can afford?—Yes. I should not like to hazard an opinion as to the amount of gold which America would be willing to part with without feeling any anxiety; but an American witness might give you that figure very much better than I. It is certainly very much in excess of any figures we have been discussing to-day.

14,313. Regarding your outlook of gold prices under present conditions in Europe—prices of commodities in gold—could you tell us what your opinion is. Are they likely to go down further, or are they likely to keep stable round about the present figure?—I think it is extraordinarily difficult to hazard any kind of conjecture on the general trend of world prices. Universal experience has shown pretty clearly, I think, that with every large war there has been a general rise in prices which has become stereotyped. The tendency of prices has always been upwards. I suppose it is the natural result of periods of widespread embarrassment that the debtor tends to obtain relief in respect of the burden of his debts and the creditor has to accept a compromise. As we know, civilisation always runs on slowly rising prices. In the absence of a further catastrophe I should think, having regard in particular to the monetary policy adopted by America (which of course is a very important element in it), that the tendency for some time to come would probably be towards stability at something like the present level; but I speak very doubtfully about it.

14,314. I understood you to say in reply to the Chairman that in your opinion a rise in gold prices does not suit America at present, and you stated certain reasons, one of which was that America is a creditor country and does not want to allow prices to rise any further?—Does not want prices to rise any further.

14,315. Yes, that is it. That tendency on the part of America is likely to last a fairly long time is it not?—She will remain a creditor country for some decades yet?—I should think it would need another world catastrophe to turn America into a debtor country.

14,316. Therefore as long as America controls world prices the probabilities are that there will not be any marked appreciation in world prices?—It is very difficult to prophesy about these things. I think the currency system of America is such that the authorities can pretty well determine the price level as they like, irrespective of the gold supply. On the other hand, there are naturally various interests in America. There are also sentimental considerations which weigh, and it does not necessarily follow that the policy which is being followed at the present moment will be persisted in over a period of ten years. There may be a change. There may be a movement in favour of easier money and higher prices in America, but I see no signs of it at the present moment.

14,317. Or for the next ten years approximately?—It is a thing which might happen at any moment; you cannot tell.

14,318. Regarding the ratio, I understood you to say that you saw no harm ultimately whatever the ratio was fixed at. When you said "ultimately" I presume you meant when complete adjustments were made?—Yes.

14,319. Can you with your experience enlighten the Commission as to the approximate time which a country takes for complete adjustment?—I think they take place very rapidly.

14,320. Would you put the period at a few years or at a few months?—A few years at the longest. One thinks of the adjustments which have been made in Germany, with the disappearance of the old mark, and so on. Apart from shiftings in capital, which is a much more serious matter, as regards

the ordinary day to day transactions, the purely currency side of the German troubles is almost over.

14,321. Can you tell us what are the main heads under which you would look for adjustments in coming to a decision on this matter?—I do not quite follow that.

14,322. I mean the main heads under which you would look for adjustments before deciding this matter. I presume, for instance, you would look for adjustments in wages and prices?—The two things I should take into consideration in determining the ratio are the current exchange rate and what I may call the purchasing power parity of the rupee, that is to say, what is its gold value for the purpose of buying things, including wages, in India, and its exchange value. If I found those things approximately the same, then I should adopt the existing exchange value without any hesitation. If, on the other hand, I found a wide discrepancy, then I should be disposed to consider some figure probably intermediate between the two.

14,323. You said the purchasing power of the rupee internally in regard to wages, and what was the other?—And commodities—goods.

14,324. Commodities, of course, would be decided by index numbers?—I suppose they are the only guide one has.

14,325. What would you go on for wages—for a fall in wages compared with the appreciation in currency?—Wages are extraordinarily difficult. One does not know to what extent real wages in India may have altered through economic conditions within the last ten or twelve years.

14,326. I think your evidence would be of more value, if I may say so, if you could give us your opinion on the matter. We want to know exactly what would be the general principle that would be observed in India as in any other country. How would you judge the necessary adjustment of wages? Would you look at the wages of 1914 and say, "When the rupee was worth *this*, wages were *this*; and when the rupee appreciated wages followed to this extent; and the rise in the cost of living has been *this*, and therefore there is an adjustment to be sought to this extent"?—Yes. I am afraid a problem of that sort cannot be disposed of by a simple formula. I should feel a certain amount of confidence myself, I think, in adopting the current rate of exchange if I found, on examining the ordinary index table of commodity prices that the internal prices had adjusted themselves to that level. I am not sure really—though, of course, the question of wages is of enormous importance—that we could get any kind of formula on which you could bring it into the sum, so to speak, for the purpose of making the calculation.

14,327. Would you, then, in the case of a country like India, where the main industry is agriculture give any consideration to the interests of the agriculturists who would suffer during the period of an adjustment and until the adjustment is complete? They would get fewer rupees owing to the higher ratio?—I am not sure that anything they have suffered they may not have suffered already. That depends rather on the question how far the internal prices have adjusted themselves to the exchange level. If the internal prices have adjusted themselves to 1s. 6d. exchange, then there is no reason to suppose that stereotyping the exchange at 1s. 6d. will have any further effect on the internal prices.

14,328. Regarding general prices, supposing the cost of living is 50 or 55 per cent. above the 1914 level, and that the agriculturist who grows cereals is getting only 35 per cent. more for his produce: what would you say? Would you say that he is suffering?—I suppose you cannot resist that conclusion.

14,329. Would that affect your decision?—No, I think not, because probably the reason why he is suffering in that case is that there has been some economic cause quite apart from currency considerations which has made agriculture less profitable in India, and I am not sure that the agriculturist would get any permanent advantage if you took a rate of exchange other than 1s. 6d. for your stabilisation. He might get a temporary advantage, but when prices had adjusted themselves generally to the new level he would probably be again suffering the same handicap which he is at present suffering.

14,330. Then I take it your position would be tho same whether the rato was the same as it has been for the last year or whether it was 1s. 8d. or 1s. 7d. or 1s. 9d. or 1s. 5d.?—Certainly.

14,331. You would pay no consideration to the figure as such?—No. The two considerations I should have in mind, in determining the rate, would be the course of the exchange over a comparatively recent period, and the general level of prices over the same period.

14,332. You said in reply to Sir Maneckji Dadabhoy that whether the course of exchange was guided by manipulation or by natural factors it would not weigh with you?—Only to this extent. If the exchange had been governed by manipulation, and if prices had not adjusted themselves to the manipulated exchange, then I should have been disposed to take what appeared to be the natural unmanipulated level of exchange, as indicated by the level of prices, rather than the current exchange rate.

14,333. How would you arrive at that natural unmanipulated rate of exchange, may I ask?—I should see what was the relation at the moment of Indian prices to world prices—what were gold prices in India, so to speak. Then I should try to get a value for the rupee which would make the rupee prices bear what appeared to be the normal relation between rupee prices and gold prices. Of course the thing cannot be done quite simply, because naturally the things which India produces will be cheaper in India than elsewhere, and the things which India imports will be dearer in India than elsewhere. Still, it is not an impossible thing. Take, for instance, the country which is very much to the fore now, France. There is no doubt that on the general level of prices the French franc is worth a great deal more than one one hundred and fortieth of a £ sterling. If you could conceive an immediate effort being made to stabilise the French franc it would probably create a good deal less internal friction in France if you made your stabilisation rate, say, 120 rather than 140. That is the kind of thing I have in mind.

14,334. In every European country financial experts have recommended those countries going back to pre-war ratios wherever possible. I wonder if you agree that they should make efforts to get back to pre-war ratios as quickly as they possibly can, or as near to such ratios as feasible?—I am not quite sure that that puts it in quite the right way. The Germans, for instance, only got back to the pre-war ratio by saying that a billion marks should be the equivalent of one new mark.

14,335. Is there any parallel between German currency and Indian currency?—No, I think none at all. I do not think there is any particular virtue in the pre-war ratio.

14,336. Still Great Britain made heroic efforts to get at the pre-war ratio and she got at it in spite of considerable protest from some people here?—I think that was owing to considerations quite peculiar to Great Britain, Great Britain's position as an international clearing office depends very largely on attaching an almost exaggerated sanctity to debts. It was very important indeed for Great Britain that promises by Great Britain to pay sterling should, whatever may have been their legal character, operate in fact as promises to pay gold. Therefore for that reason it was essential that we should avoid anything in the nature of shaking off a burden. Though we were in the main only under contract to pay our own money, we had in substance to pay gold. That sounds very virtuous, but on the other hand, you must remember that for every £ which we

owed to foreign countries, foreign countries owed us a very much larger number, and it was also very much to our interests that in respect of these foreign debts we should receive a gold £ for every sterling £ that was owed to us. So there was an element of intelligent selfishness, as well as commercial morality, in the return to the gold standard.

14,337. But for this, according to you, Great Britain might have left behind the pre-war ratio and stabilised it at something lower?—She might conceivably have done it if she had thought it to her interests to do so. There was at one time a school of thought which was very much in favour of having a new ratio to the dollar.

14,338. India, with a 1s. 6d. rate, would be the only country which has an appreciated currency over the pre-war ratio?—I wonder if that is so? I think probably it is.

14,339. We had it from an authoritative source that India is the only country in the world with an appreciated currency over the pre-war ratio, every other country having tried to get to her pre-war ratio. You do not think there is anything which would strike you as peculiar about this suggested position of India?—I think the precise ratio in any case is a matter to be settled entirely according to the enlightened view of the interests of India herself. By increasing the gold value of the rupee, it means of course that India is paying in respect of her foreign debts—not of course her sterling debts but those expressed in her own currency—more than she owes in terms of commodities. There is no doubt about that. That, *prima facie*, is a very strong argument against increasing the value; but there may be arguments, and I think there are arguments, in the other direction.

14,340. Such as?—That to depreciate the currency now from the present figure of 1s. 6d. to 1s. 4d. would cause a disturbance of existing relations of debtor and creditor in India which would not be to the good of the community as a whole. That is the argument, but I am not expressing a view one way or the other.

14,341. (*Sir Reginald Mant.*) You have expressed a preference for a fixed limit to the fiduciary issue if the gold standard is adopted. Would you contemplate a periodical increase in that limit as the volume of circulation grows? I may explain that the circulation in India is increasing very rapidly; in fact in the last ten years the currency note circulation has about trebled itself, and in actual practice we have a fixed limit to the fiduciary issue, but it has been periodically raised during the last ten years to keep pace with the increasing volume of Note circulation.—I see no objection to that at all. I think there is a good deal to be said for varying the fiduciary issue from time to time when economic conditions have actually altered.

14,342. And in connection with the seasonal demands for currency, we have at present a system under which the fiduciary issue is temporarily increased within fixed limits. When the Bank rate is 6 per cent., it may be increased by so many crores. When the Bank rate is higher it may be increased to a larger extent, and so on. In answer to Sir Henry Strakosch, I think you rather thought that the necessity for seasonal increases might necessitate the abandonment of the principle of a fixed fiduciary issue; but the two are combined at present.—If you have an emergency increase of a fixed issue depending upon the Bank rate, or anything of that sort, you do get some little distance along the road which leads you to the percentage criterion. Personally I much prefer the special arrangement for dealing with the seasonal fluctuations, combined with the fixed issue to a flat percentage arrangement. I prefer the arrangement you have described.

14,343. That is the arrangement in force at present, except that we have rupees as cover instead of sovereigns.—You could work it equally with the fiduciary part of a Note issue based on the gold standard.

14,344. The present system practically fits in with what you recommend. Just one other question in connection with the separation of the issue department from the Banking department if a Central Bank is instituted. I understood that, in reply to the Chariman, you expressed some doubt whether the Bank should be treated as a member of the public in taking Notes from the issue department. Was that not so?—I think from the point of view of determining the percentage you will have to treat the issuing Bank as a single entity; that is to say, the circulation would have to be the total of Notes issued, less the Notes in the Banking Department. That is, of course, the invariable principle in regard to American and Continental Central Banks.

14,345. But they have not a separate issue department, have they?—No. I am rather afraid that if you treated the Banking Department as the outside public from the point of view of the application of a percentage standard it would be very easy indeed for the Central Bank to adjust matters as between the Issue Department and the Banking Department.

14,346. There would be no real check?—It might be possible to devise a check, but I have never heard the percentage system advocated in combination with a separate issue department. The whole of the movement for the adoption of the percentage system in this country—which was associated with the name of Sir Edward Holden—involved amalgamation of the two Departments of the Bank of England.

14,347. So it comes to this practically—that you cannot have a separate issue department if you have a percentage cover?—I should not put it quite so definitely as that, but I think the machinery for adapting the separate issue department to a percentage cover would have to be very carefully thought out.

14,348. No country has succeeded with it, or has attempted it?—I do not think it has ever been tried so far as I know.

14,349. (*Chairman.*) Are there any other matters into which we have gone to which you would care to revert or to amplify?—No. I do not think so. I have given you my views on these matters for what they may be worth. I am afraid I have trespassed a little beyond the limits I laid down for myself, but I have naturally taken a considerable interest in Indian matters, and I found it rather difficult to abstain from expressing opinions when I have been invited to do so. At the same time I do want to emphasise the fact that any opinions I have expressed in regard to Indian conditions are purely those of an amateur.

14,350. (*Chairman.*) We have to thank you very much for your most useful and ample assistance to-day.

(*The witness withdrew.*)

# FORTY-FOURTH DAY.

## Monday, 19th April, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER
Mr. A. AYANGAR (*Secretaries*).

The Right Hon. MONTAGU NORMAN, P.C., D.S.O.,(Governor of the Bank of England), and Sir CHARLES ADDIS, K.C.M.G., re-called and further examined.

14,351. (*Chairman.*) Mr. Governor, when we adjourned last time, you were assisting us, with Sir Charles Addis, on the subject of a curency standard for India.

14,352. (*Sir Purshotamdas Thakurdas.*) Can the sterling securities in India's reserves in London be looked upon as gold securities in the sense that they could be liquidated at short notice, if necessary?—(*Mr. Montagu Norman.*) To the extent to which they could be sold, they could be looked upon as gold.

14,353. Could one rely upon selling those securities at comparatively short notice, depending upon the volume?—I have no particulars of the securities, but from what I believe them in general to be it would depend entirely upon the volume to be disposed of.

14,354. Up to a certain limit it would not matter, but over a certain limit it might?—It is a question, as with everything else, of finding buyers.

14,355. To that extent, therefore, gold backing of notes is always preferable to securities, is it not?—I favour a division between the two; a gold backing alone is, perhaps, a counsel of perfection.

14,356. You favour the other because it is more economical, as it brings in a return?—Yes, and because we are at present in what I regard as a transition period, following the events of 12 years ago, and, as I tried to explain when I was here before, we must in my opinion all try to advance together via a gold exchange standard to a more complete gold standard; I am speaking particularly with regard to the covering of Note issues.

14,357. You say that because we are in a transition period you would recommend a division between the two, namely, gold and gold securities. What would you recommend when we are in a period which is outside the transition period—when we are in a normal period?—Do you mean what would I recommend as the ultimate goal at which to aim?

14,358. Yes?—A large proportion of reserves against your notes in gold. I do not think I can define the proportion at this moment, because that is an ultimate and a hypothetical question. Of course, when I speak of securities I refer to external securities.

14,359. I understand. The sterling securities in India's gold reserves here are external for India, are they not?—Yes.

14,360. The difference between what you recommend for normal periods in India and what you recommend for the transition period is due to what particular circumstance?—It is due in the main, I think, to the ill distribution of gold throughout the world.

14,361. Then may I take it that you make this recommendation because you apprehend that if India did at present, or during the transition period, what you recommend for her as being good in normal periods, she might disturb conditions in the financial markets of the world?—I think she would disturb them. I think all the countries of the world should move in co-operation towards gradually improved conditions. That is what I think we are all trying to do.

14,362. You would not approve of any greater restriction on India in that direction than what may exist for any other country in the world?—Generally speaking, no.

14,363. I will specify what I have in mind. Other countries in the world are able to draw gold for their favourable balance of trade. Would you consider it justifiable on the part of India to aim at doing the same?—There may be occasions when such action would be regrettable, but otherwise I think it is quite justifiable.

14,364. From what point of view is it to be regretted?—As I look upon it, the chief object of gold to-day is to form the basis of international credit; and if India draws its trade balances in gold they may cease to be available as reserves for credit.

14,365. Are any countries making any change in that direction from what used to be the ordinary practice before the war?—I am not aware that any other country is taking gold in that way and using it for a purpose where it is not available as reserves.

14,366. I am sorry if I did not make myself clear. My question was with regard to the Government drawing gold for currency purposes in liquidation of balance of trade instead of keeping the balance here in securities?—I understood you were speaking of the balance of trade of India, of which a large amount in the last year or two has certainly gone to India in gold.

14,367. Yes, but that was on private account?—On whose account I know not, but obviously it is in payment of exports.

14,368. What is being done on private account can hardly be helped, even though one may regret some aspects of it. No suggestion has been put before the Commission that this activity of India should be restricted. I however was on the question of what the Government may do. Instead of selling excess Councils here and retaining the proceeds in the form of securities in London, would there be any objection to the Government drawing such surplus in the form of gold?—For what purpose?

14,369. For the purpose of currency reserves?—You are speaking of the Government of India?

14,370. Yes. May I explain my question one step further? The Government of India would limit their remittances to that which was necessary for the Secretary of State's requirements. Beyond that, when rupees were wanted by any Banks they would tender gold and get rupees. Similarly the export of gold from India would be free whenever the reverse course was necessary. There would be a free inflow and outflow of gold.—The inflow and outflow of gold is free now, is it not?

14,371. It is free, but the Government do not operate on those lines at all. The Government keep their reserves here in securities.—I have said that I look forward to a time when the note issues will be gradually covered by a larger and larger proportion of gold, and if the Indian Note issue, in the way you have suggested, can be gradually covered by a larger proportion of gold I should think that it was, generally speaking, an advantage, but I have tried to distinguish between the use of gold for such a purpose as that and the use of gold merely as an import into India.

14,372. (*Chairman.*) Sir Purshotamdas Thakurdas is clearly making that distinction, and we understand that you are making the distinction too.

14,373. (*Sir Purshotamdas Thakurdas.*) Up to now, at any rate, I did make that distinction. You said in your evidence to the Chairman that you believed that gold might circulate in England when her international position had become so favourable as to raise exchange and cause a large inflow of gold, thus strengthening the reserves to such a degree that the circulation of gold coin, an evidence of prosperity, would be practicable. I took those words down from your reply to the Chairman. May I ask if in your opinion India has at present a large favourable balance of trade, and whether her reserves at present can be considered to be strong?—She has had a favourable balance of trade, I believe, but I am not familiar with her reserve position.

14,374. I wonder if Sir Charles Addis has any views on that?—(*Sir Charles Addis*): There is no doubt about her favourable balance of trade, and I should have thought the credit position of India was unassailable.

14,375. Do I understand that you also think that her reserves are at present in a strong position?—You mean the gold standard reserve and the paper currency reserve?

14,376. I mean are the reserve funds of the currency department in a strong position?—Yes, I should think they were ample.

14,377. The only other condition, Mr. Governor, that you named in your reply to the Chairman was a higher exchange. India's exchange has lately been higher than the pre-war level. With those three conditions which you named being fulfilled, the only objection that can be urged against India having a gold currency is the consideration of other countries in the world. That is not a consideration which I minimise at all or which I would suggest minimising, but is it not the only consideration?—(*Mr. Montagu Norman.*) One moment. There are two things in that. I was asked that question by the Chairman, and I think I said the only answer I could make would be merely in the nature of a dream. I certainly used the expression "dreaming."

14,378. (*Sir Purshotamdas Thakurdas.*) Yes, you did.

14,379. (*Chairman.*) This is the evidence: "(Q.) What period would you contemplate in which it would be possible to resume the convertibility of notes into gold in this country, and under what conditions?—(A.) Well, this is dreaming, is not it? We are dreaming now. (Q.) If we are only dealing with dreams, I think it is hardly worth while to pursue it further."—I was speaking of a possibility not likely to be realised within my lifetime. I was not advocating that condition. I was looking forward to something that I could not at present foresee. I was speaking there merely hypothetically. Therefore, I venture to say that no recommendation should be deduced from it.

14,380. (*Sir Purshotamdas Thakurdas.*) I do not want to read into your very full reply on 29th March a single thing more than you meant. If I may say so, I have fully understood the gist of it. Whilst you were dreaming, as you said, I think you also said it was something you would look forward to and expect to work up to?—Well, I do not know. I should look forward to it, may be, but not as attainable in my lifetime. If I said that I should work towards it, that is in line with what I have already said to you this morning, that I hope to see a gradual move from the gold exchange standard towards the gold standard. As regards your last question to me—as to whether India should adopt this change at once but for one particular reason which you have named, I feel so deeply that the interests of India and of every other country are so bound up together that I do not care to contemplate or suggest that one country should act independently of the remainder, at any rate to more than a limited extent.

14,381. But you agree that India should not have any more handicaps than any other country?—I agree.

14,382. A witness before the Commission has said this: "It is certainly a striking fact that the Indian exchange is the only important exchange in the world which has appreciated in terms of gold." Is it correct, according to your knowledge, that Indian exchange at 1s. 6d. gold is the only important exchange in the world which has appreciated in terms of gold?—I can think of none other.

14,383. I understood you to recommend stabilisation at about the existing ratio of 1s. 6d. gold?—I certainly recommended stabilisation. I have not any definite opinion as to the point at which stabilisation should take place; but generally speaking I am in favour of stabilising where you are. It is a pragmatic question.

14,384. May I ask why India should stabilise in a manner which is quite exceptional for any other country, that is at a higher rate in gold that before the war? Is there any special reason why India should stabilise at that point?—There is no special reason from my point of view except that I find her there.

14,385. It does not matter, then, in your opinion, whether the present rate is stabilised by natural means or by something which is artificial?—If I was aware of the existence of an unnatural position which had resulted from the adoption of exceptional measures, that might change my view; but, as I understand it, though I have not studied the question, it has been generally speaking by natural causes that the Indian exchange has come to be where it is, and to remain there over a long period; and I see no reason to advocate that it should be altered.

14,386. (*Sir Purshotamdas Thakurdas.*) As Sir Charles Addis dealt with this point fully before, perhaps he might like to say something now.

14,387. (*Chairman.*) Perhaps you will repeat the question.

14,388. (*Sir Purshotamdas Thakurdas.*) May I put it to Sir Charles Addis in another way. Sir Charles, you recommended stabilisation at 1s. 6d.?—(*Sir Charles Addis*): I did not.

14,389. At the existing rate?—I did not recommend that. On the contrary, my evidence was to the effect that it would be better to wait.

14,390. (*Sir Purshotamdas Thakurdas.*) If I remember correctly, Sir Charles, you said on 29th March you would recommend the Commission to watch, but if India thought that the time was opportune for stabilisation you would recommend stabilisa-

tion at the existing figure. May I read to you your reply which I have in mind? It is in paragraph 13,735.

14,391. (*Chairman.*) Sir Charles Addis said, "I should wait, if I were the Government of India; but I do not feel very strongly about it. I do not doubt that if they wished to fix the rate at the present quotation they could do it very well. I admit that if, for instance, they fixed the rate at 1s. 6d. probably no great harm would ensue. But I also think that with prudence and caution there would be no great harm in waiting a little longer. I do not put it higher than that. You might be right in doing it now, but you would have a better prospect of being right if you waited some time longer."

14,392. (*Sir Purshotamdas Thakurdas.*) So that if it was to be done now, I understand that you would recommend it should be stabilised at 1s. 6d.?—I think the misunderstanding arises in the sentence, "I am quite confident that if they fixed the rate at the present price they would do very well." Either that was not correctly reported, or at least it did not represent what I intended to say.

14,393. I am quite prepared to accept any modification.—The modification is this—that I was confident that if they did fix it at 1s. 6d. they *could* do it, but the whole trend of the argument was that they should *not* do it.

14,394. Supposing the Commission came to the conclusion that the time was ripe to stabilise; what is the rate you would recommend then?—My recommendation is that the Government should not stabilise now but wait until they are satisfied that equilibrium between external and internal prices in India has been established. For myself I do not lay much stress upon the argument based on the equivalence of wholesale index numbers. They are generally taken from the commodities which are interchanged between the two countries, and therefore obviously must be approximately the same. The real test is the exchange itself. If that were settled for any considerable period, at any rate (I do not think the actual rate is of primary importance), then that, I think, would be the rate to take. The reason for waiting—which I tried to put before the Commission on the last occasion—is that stability of prices in Europe is not yet assured. Prices in this country during the last year have fallen between 12 and 13 per cent. There have been movements in America even more marked. Of many countries on the Continent of Europe it cannot yet be said that there is satisfactory proof of a state of price equilibrium having been reached. I think there would be, not perhaps a great, but an appreciable risk in fixing the Indian exchange until a greater degree of stability has been reached in Europe.

14,395. There is, in your opinion, a risk of fixing too high a rate, and that immediately after that, should gold prices decline, Indian prices would have to go down from the existing level. That is the risk, is it not?—That is one of them. If exchange is fixed too high internal prices might be too low; if fixed too low, prices might be too high.

14,396. In order that I may understand exactly your position, may I put it in this way? If 1s. 6d. is fixed, and should there be a further decline in gold prices, Indian prices would have to recede, and that is undesirable.—I am not sufficiently conversant with conditions in India to give an opinion of any value as to the present position of prices there. I am not sure how far they are in juxtaposition to external prices.

14,397. Is your caution directed against further depreciation in prices in India or against a further rise of prices in India?—It is against neither. I want to see the Indian exchange established at a point the most favourable to the interchange of commodities at comparatively stable prices with foreign countries. The particular rate which answers that purpose is not of primary importance. It is the price ratio which is important. The rate of exchange which fairly equates the two prices, so as to ensure the greatest economic advantage to India, is the rate to adopt. But whether that rate should be 1s. 6d. or 1s. 8d. or 1s. 4d. I am not in a position to judge; I do not know enough about local conditions.

14,398. In fixing your ratio would you also take into consideration an adequate return in rupees to the grower in India who grows the articles which are interchanged?—I do not know how you could fix such a point.

14,399. Would you give any consideration to that point?—I would, but I confess that phrases like "adequate return" and "a fair wage," and so on, are rather meaningless to me. I do not know just what meaning to attach to "adequate return."

14,400. What would you recommend the Government of India to do in the meantime? Supposing the Commission were disposed to follow your recommendation, and wait. What should this Commission recommend the Government to do in the meantime, bearing in mind that on the Statute Book there is an ineffective ratio of 2s.?—I should recommend the Commission to advise the Government to hold their hand until matters have become more settled in Europe before coming to a decision on the point, in order to allow the free play of exchange to determine the point of equilibrium between internal and external prices.

14,401. (*Sir Purshotamdas Thakurdas.*) And in the meantime, to manage the exchange as they have managed it during the last three years?

14,402-3. (*Chairman.*) Perhaps I ought to remind Sir Charles Addis of similar questions which were asked him on the previous occasion. The evidence was as follows: "What, in the meanwhile, should be the policy and the action of the Indian currency authority as regards the exchange?—(A.) I think the policy should be as far as possible to mitigate the seasonal fluctuations of exchange, but as regards the more permanent movements, so far as these can be ascertained, exchange should be allowed to take its course. (Q.) If one is to eliminate fluctuations that postulates that one has accepted some mean, does it not?—(A.) It implies the adoption of some mean which, while it remains steady so far as seasonal causes are at work, is indeterminate as regards permanent or quasi-permanent economic effects; that is to say, the mean should be altered from time to time if it is found that trade is permanently tending in that direction. (Q.) Do you see any disadvantage to the prosperity of Indian trade in there being uncertainty as to what the mean was to be from year to year?—(A.) Certainty is always to be preferred to uncertainty. I only suggest that the certainty may be purchased at too high a price."

14,404. (*Sir Purshotamdas Thakurdas.*) But, in reply to Sir Alexander Murray, Sir Charles said that the 2s. rate now on the Statute Book does no harm because there is a free inflow of gold—of course, on private account—and Indians are able to buy gold in the market. I wonder if Sir Charles Addis would mind my asking him whether the 2s. ratio does not prevent importers of gold who wished to realise it from tendering it to the Government, thus compelling gold to be in fact merely a commodity, and whether that is not a serious handicap?—That is, of course, the fact. Whether it is a serious handicap or not I do not know. I should have thought not. I should have thought that so long as gold was free to come in and go out as a commodity the mere fact that it was being dealt with on the market instead of by the Government would not make much difference.

14,405. Supposing a bank has imported gold to the extent of £200,000, and that it is a genuine operation, and supposing when they have got that gold to Bombay they find the demand for gold for the time being slack, that gold which should, on the parity of 1s. 6d., be worth 21 rupees 6 annas, or

whatever it is, is at 21 rupees 4 annas 6 pies, because there have been a couple of accidents on the railway affecting the import of gold into up-country districts: What is the position of that bank? It has either got to make a loss on that imported gold, or it has got to borrow on that gold at Bank rate. I am not suggesting something which is imaginary; I have in mind one or two instances where people who held large quantities of gold had to borrow on it at Bank rate, when the Bank rate was 7 or 8 per cent., because the demand for gold in the Bombay market for a few weeks happened to be very slack. Is not that a very serious handicap, and would not you, as a banker of experience, recommend that state of things should be put an end to as early as possible?—As long as gold cannot be taken freely to the Government and sold at a fixed price, obviously that is a disadvantage to the importer of gold; but the particular difficulties from which he suffers are not peculiar to gold as a commodity, and I doubt if it could be considered a serious handicap from the national point of view.

14,406. Do you think it is a thing which would be tolerated in any country?—That the Government should not buy gold at a fixed price?

14,407. That the Government should have a rate on the Statute Book which prevents genuine importers of gold from tendering it to the Government for currency purposes—the only function of gold on which everybody has absolutely unanimous views?—But they can tender it to the Government now.

14,408. Can they? Would you tender it at 10 rupees to the sovereign, Sir Charles?—That is another question. The first question was, can they; and the answer to that is, yes.

14,409. I suppose the answer would be the same if the statutory rate made the sovereign worth 5 rupees. It is not the possibility, it is the practicability of it which matters, is it not?—The practicability matters from the importer's point of view, but the rate, having been fixed at 2s., I do not see what the alternative is.

14,410. The only remedy is to do something which will not drive gold into the position of being a commodity?—To do that is to fix the gold content of the rupee, and that is the very point on which I have given evidence to the effect that I think it is better to wait. The particular hardship (I do not think it is a very serious one) must continue until the Statute is altered.

14,411. If you say you do not think it is a very serious hardship, I have nothing more to say. I am only asking whether it would be tolerated in any other country. Do you know of any other country in which gold has been dealt with in the manner in which it has been dealt with in India in the last two or three years?—No, I do not, but there are no other countries of which it can be said that the conditions are the same as in India.

14,412. What are the exceptional circumstances in India which justify such a state of affairs which is not in vogue in any other country?—There is one obvious difference, namely, that the silver rupee in India enjoys full legal tender. That is an important difference.

14,413. But surely that has no bearing on the present question. There are 90 crores of rupees in the Government Currency Offices. It is more a dead weight than anything else?—I do not agree. In fixing exchange, the fact of a full legal tender silver coin circulating along with a full legal tender gold coin does create an additional difficulty.

14,414. Would that difficulty involve keeping a dead ratio on the Statute Book for many years more?—I hope not.

14,415. That difficulty will always be there?—If the silver rupee remains full legal tender.

14,416. Yes. If I remember correctly, you yourself recommended that the legal tender quality of the rupee should not be interfered with?—Yes.

14,417. Therefore that difficulty, according to your view, will always be there. Would it involve our having an ineffective ratio on the Statute Book for ever?—No.

14,418. At what point would you recommend a change?—I have explained more than once, but I am quite ready to do so again. The point at which I should fix the exchange would be that at which sufficient experience shows that prices in India are properly equated with prices out of India.

14,419. What I meant was, at what point from the legal tender of the silver rupee point of view would you make the change?—At the point at which you determined the value of the silver rupee in terms of gold. With regard to your other question, I gave the legal tender of the silver rupee as an instance of the difference existing between the Indian currency system and the currency systems of other countries, which makes it difficult to put them on exactly the same level for comparison.

14,420. So you think the leaving of the dead ratio on the Statute Book during the last two or three years may have some connection with the silver rupee being unlimited legal tender in India, and may be justified on that score?—No.

14,421. Then it has no bearing on what we are discussing, has it?—I do not follow.

14,422. The unlimited legal tender quality of the rupee has no bearing on the question of a dead ratio being left on the Statute Book at present?—The question of the full legal tender rupee has no relation to the rate of 2s.?

14,423. Continuing the 2s. on the Statute Book?—Do you mean that if the rupee were not full legal tender that would be a reason for altering the ratio?

14,424. No. I say the rupee being full legal tender has nothing to do with the 2s. rate being retained on the Statute Book until now?—I do not think I could accept that. It is a little difficult and would take a long time to explain, but I see an addition to your difficulty in fixing the exchange, owing to the fact that you have a full legal tender silver currency. It raises the question of the supply price of the silver in the rupee and of the interaction of gold and silver prices. Considerations like these directly affect the question of exchange stabilisation.

14,425. Do you think it is possible that in the decision of the Finance Member to keep this ratio on for the last two years, the question of the full legal tender quality of the rupee played an important part?—I think the price of silver played some part in putting the 2s. rate on the Statute Book. I am not implying that it is a good thing to have placed it there, but it is better to leave it there until you have considered what you are going to alter it to.

14,426. I am only trying to see whether by leaving it there you are not making things more difficult and more harmful for India than by taking a decision regarding the stabilisation point now?—That is a fair argument, and if I incline to the other side it is only because I think that there lies the balance of advantage. It is my personal opinion. I do not press it. I think if you did adopt 1s. 6d. you could do it perfectly well. I go further and say that I do not think any great harm would result, but I still believe it would be better to wait a little longer.

14,427. You are not prepared to say which way the risk lies—whether 1s. 6d. would prove too high or too low?—No. That would mean that I had a reasoned opinion upon the course of future prices in Europe, which I have not.

14,428. You consider the advantages of non-stabilisation of the ratio, and the disadvantages of having a dead ratio on the Statute Book at present which prevents gold from being tendered to Government, are both equally balanced?—The disadvantages of having 2s. on the Statute Book?

14,429. Which prevents gold from being tendered to Government, and the advantages of the non-stabilisation of the ratio. In your opinion they are

both equally balanced?—I think the balance, on the whole, is on the side of delay.

14,430. The other thing does not strike you as being a peculiar handicap to the currency system of India which should be remedied at the first possible opportunity—cutting out gold from being a live thing in expansion of your currency. That does not strike you as being an exceptional handicap to a currency system?—No, I should not have thought that. I should have thought that the growing opinion certainly in Europe is rather the other way. People are beginning to think now—even in this country—that the importance of gold as currency has been over-estimated, and that, upon the whole, we can get along very well without it. That opinion is also prevalent on the Continent.

14,431. That opinion may prevail among countries which cannot afford to have gold?—I think it goes further than that. There is a body of scientific economic opinion which holds that, even if a country can afford to have gold, it would be better to use it for other purposes than currency.

14,432. No country having more gold than it requires, or which is fairly comfortably off in that direction, has parted with its gold on that theory? —Upon that theory the gold would be centralised and used as a basis for credit, but not as currency.

14,433. There has been no movement in that centralisation yet, has there?—Yes, there has. It is only a beginning, something actually has been done. I cannot go into details. I must leave it at that.

14,434. On March 29th you said this: "I suppose the argument is that the price of gold in terms of rupees would be increased, and that, since the native thinks in rupees, should reduce the effective demand. There is that tendency, but there are other factors at work which suggest that it would be unwise to attach undue weight to this consideration, unless the ratio fixed were substantially lower than at present." What are those other factors which you had in mind?—What I had in mind were the social habits of the Indian people—the degree of importance which they attach to the precious metals as compared with other things.

14,435. This is in respect of gold, is it not?—Yes.

14,436. What you had in mind was that the social habits of the Indian people would have the effect of——?—Of increasing or diminishing the demand for gold.

14,437. According to the price?—The price would be one factor, but the social habits might be another, and a very significant one.

14,438. Whatever the price, the people would take the same quantity of gold?—No. You must balance the two things. There is the demand which arises from the social habits of the people. That may be checked by a rise in price, or the demand may be so inelastic as to counteract the effect of the rise.

14,439. But the question referred to this, I think—that at 1s. 4d. gold would be worth in rupees about 24 rupees and odd annas, and at 1s. 6d. it would be worth 21 rupees odd annas. The difference between the two would be about 3 rupees per tola. Would not the Indians buy more gold for their social purposes, namely, ornaments for their women folk, and so on, at 1s. 6d.—the equivalent of 21 rupees odd annas—than at 1s. 4d., the equivalent of 24 rupees odd annas? Obviously I should have thought the reply would be that they would buy the more the cheaper you made it in rupees?—Is not that my reply?

14,440. No. You said: "There are other factors at work which suggest that it would be unwise to attach undue weight to this consideration."—The first thing is that as an article becomes dearer or cheaper the tendency is for the demand to decrease or increase. But then social habits may change, with regard to the estimation, for instance, in which gold ornaments are held. If the estimation were higher this might maintain the demand and so counteract the effect of the rise in price, or conversely, if the estimation were less, aggravate the effect by reducing the demand.

14,441. This is one of the other factors?—That is one of the other factors.

14,442. I wondered whether there were any more.—Another factor is a rise or fall in the price of other commodities. The choice may be hovering between the purchase of gold and some necessary. You have to balance the relative demand for one or other.

14,443. If the demand is hovering between gold and some article of necessity, I should have thought the lower you made the price of gold the farther you took the man from the inducement of buying his necessaries?—But supposing the price of the necessary is moving equally rapidly in another direction.

14,444. Lower down still?—Yes.

14,445. Then the question is whether it could go lower than the price of gold. There is a limit to which necessities can go. A grower cannot go on growing at any price. You can make gold available at any price, but the grower cannot always grow at any price?—I never suggested that the price of gold might fall to infinity.

14,446. But suppose at 1*s*. 6*d*. as far as the grower is concerned the return for his crops is very near the point?—It depends on how far the crops are governed by world prices. The market price is determined by other considerations than the cost of production to the grower.

14,447. It might be so determined for the first year, but it would not be determined very long apart from the cost of growing, would it?—The price would finally depend upon the cost, since there is a point at which production would cease, but that might take a long time.

14,448. I only wanted to get at the other factors which you had in view?—I could mention others, but social habits is the important one.

14,449. (*Chairman*.) You said in reply to a question, that in your view the currency reserves in India were ample. We must read into that, I suppose, that they are ample in relation to the present liabilities, and the present obligations of the currency authority?—Yes.

14,450. We have still to obtain your assistance on the question of the Central Bank, and we shall be glad to have ample time in order to explore that important topic. Will you be able to come again?—We shall be pleased to come whenever you desire us to come.

14,451. (*Sir Reginald Mant*.) Mr. Governor, may I refer for a moment to your dream, in which you looked forward to the restoration of gold circulation in this country. We have received a good deal of evidence to the effect that gold circulation is not a desirable thing, and that the present currency system in this country is theoretically preferable. Sir Charles Addis referred to it just now. Some of the advocates of the introduction of a gold circulation in India have said that they only regarded it as a temporary phase—that they regarded a note circulation as the ideal circulation and that they proposed to introduce gold currency in India with a view eventually to withdrawing it and reverting to a note circulation. Can you tell us why you regard a gold circulation as a desirable thing in itself?—(*Mr. Montagu Norman*.) I do not think I do.

14,452. I thought you did?—No, I do not think I said so. When I was asked as to the possibilities of a gold currency in this country I said that beyond my lifetime conditions might make for its return, so to speak, naturally and automatically though my personal belief was that a gold currency would come to be looked upon as almost a sign of backwardness as well as being uneconomic and that at any rate the generation to which most of us in this room belong would not desire again to carry sovereigns in our pocket in preference to the more convenient notes. That is my feeling.

14,453. Then your dream will never be fulfilled?—I cannot say. I do not attempt to prophesy as to what will happen after our lifetime. If I had my personal choice I should always prefer to carry the convenient note rather than actual coin, and I think it has economic advantages as well.

14,454. I thought from your previous replies that you considered gold currency a desirable thing?—No, I do not think I said that. You can see what I did say. Have I answered you now?

14,455. Yes, I think you have made it quite clear. In connection with the system of remittances from India you said you preferred the present system of purchase of sterling as against the older system of tenders, and you mentioned, I think, that secrecy was a desirable thing in conducting exchange operations. We have received complaints in India from influontial bodies against that system on the very ground of the secrecy which is attached to it. It was represented to us that Government in making remittances is not in the same position as a private remitter, in that it has not to consider merely getting the best terms, but has also to consider the effect of its operations on the exchange of the country, and that the Indian Government is in a peculiar position in that its remittances have practically a dominating effect on exchange. For that reason the opinion has been expressed that Government ought to continue to conduct its remittances in a more public way. I would like to know your answer to those representations? — For myself I disagree entirely with the representations you mention, but I think the remitting authority should have the right to choose the method of acquiring sterling or rupees, as the case may be. The remitting authority—at present I do not say who it should be—should have the right of determining; for myself I prefer the method which has been employed during the last year or two, and as the regular method I strongly recommend it.

14,456. You do not attach any importance to the fact that Government dominates the exchange?—No, I do not. I attach importance to it perhaps, but it does not alter my opinion.

14,457. There is one other question, which I want to ask Sir Charles Addis, in connection with what Sir Purshotamdas Thakurdas asked just now. Sir Purshotamdas Thakurdas drew attention to the fact that at present gold is only imported into India as a commodity, and that it is not practicable to present it to the Government currency offices for exchange into currency. You, Sir Charles, said that you could not name any other country in which similar conditions prevail. Does not that condition prevail in every country in which the current rate of exchange has depreciated and has fallen below the legal rate?—(*Sir Charles Addis.*) Your question is whether there are countries which refuse to accept gold at the mint.

14,458. No; countries in which gold is so much more valuable as a commodity than it is at its legal monetary value?—Yes, obviously.

14,459. If you took gold to France or Belgium, would not you dispose of it as a commodity and not take it to the Government offices or banks?—Quite so.

14,460. Then the conditions in that respect are just the same as in India?—I would not like to say they are quite the same, because you do have the difficulty of the 2s. rate in India.

14,461. The current rate of exchange in India is below the legal rate?—The difference is that an artificial rate has been fixed by the Government in India. In other countries it is paper currency that has run away from the gold coin. It is not an important distinction, but it is a distinction you must allow for what it is worth in favour of Sir Purshotamdas Thakurdas.

14,462. But legally the position is the same?—Practically the thing is the same. Technically it is different because no difference was made in the gold content of the Napoleon. The same cannot be said of the rupee; and that does make a difference.

14,463. But practically the conditions are the same?—Practically the conditions are the same.

14,464. (*Sir Henry Strakosch.*) It has been suggested by one of the witnesses that the withdrawal of 103 millions sterling, estimated to be the amount needed from the world's gold reserves to introduce a gold currency, "need have no effect on the supply of credit and on prices. Any effect would be the result of an avoidable policy." I am quoting the witness's own words. The suggestion behind that, of course, is that in this country, for instance, a substantial reduction of our gold reserve need have no effect upon the supply of credit and the price of credit if the Bank of England so wished. Would you agree with that?—No.

14,465. You would rather say that a heavy withdrawal of gold from the reserves of the Bank of England would have a natural repercussion upon the market for credit?—Essentially.

14,466. Quite independent of what the Bank of England wishes or does not wish?—I do not know about "quite independent."

14,467. Largely independent?—It is partly a question of the effect on mentality.

14,468. That is it. You would agree that if there were large withdrawals the commercial and financial community would, without any suggestion from any other quarter, draw their conclusion and contract credit?—Undoubtedly.

14,469. Under the currency legislation in force in this country at the present moment, the Bank of England note and the currency note are convertible no longer into sovereigns, but into gold bullion?—Yes.

14,470. Does the Bank of England in practice cash notes in sovereigns?—It does not in practice. I do not mean to say that occasionally an individual is not obliged. We do sometimes oblige an individual, but as a general practice the Bank does not pay its notes in coin.

14,471. One sees in some of the publications that sovereigns have left the Bank of England for some destination abroad?—I beg your pardon, I misunderstood you.

14,472. Then the Bank does supply sovereigns?—Yes.

14,473. That is to say, the Bank would, as a rule, not supply sovereigns if they are needed for internal purposes, but would supply them if they were needed for external purposes?—Speaking from memory, up to the present time the Bank has always supplied sovereigns in exchange for bars for export to those places in which sovereigns are customarily used. Does that answer your question?

14,474. Yes. It does not as a matter of practice pay out sovereigns for internal purposes?—No, but I say that if you come and ask for a few sovereigns you may obtain them.

14,475. Suppose I wanted a hundred thousand sovereigns?—You would have to satisfy me.

13,476. Would you regard the currency system in force in this country at the present moment as effective in stabilising sterling in terms of gold as the pre-war gold specie standard, where the internal currency was convertible into sovereigns?—I think I should.

14,477. In your wide experience to what extent is it safe to rely upon gold in circulation being available for external payments in case of exchange weakness?—I think that mainly depends on the mentality of the public, as to which you can form no opinion in advance—if I have understood your question aright. If you convince the public that a national emergency has arisen—as occurred twelve years ago—they will compete with one another to surrender to the Bank what they have been told can be employed to the advantage of the nation. But that is a question of mentality.

14,478. So that in a real crisis one could not rely upon gold in circulation to help you in maintaining the external value of your money?—You could only

rely upon it if the mentality of the public was so tuned at the moment that they wished to give that particular assistance. You might equally well have a position where the public mentality acted in the reverse direction, and they would not assist you.

14,479. Would you therefore agree that the gold reserves in the hands of a central bank under a gold specie standard have to be practically as great as they would have to be under a gold bullion standard. I have to explain that. I call a gold specie standard a gold standard with gold in circulation, and I call a gold bullion standard a standard in which the internal currency is convertible into gold bars. My question is whether you would regard it as necessary to hold under a gold specie standard as substantial a reserve against your fiduciary money as you would under a gold bullion standard?—I do not differentiate. Sir Charles thinks less. This is a hypothetical question, is it not, Sir Henry? My view is that it does not make any very great difference.

14,480. Though it may be hypothetical, the problem for India is whether gold currency should be introduced or whether some other form of currency should be introduced where gold does not circulate. I am anxious to know whether if a gold currency were introduced into India, the banking reserves to secure the fiduciary money, namely, the notes and the rupees, would have to be as substantial as if another standard were adopted?—My view is that it would be.

14,481. So that from the point of view of maintaining stability of the currency externally, the internal circulation of gold coin is of very little use for practical purposes?—Very little in my opinion.

14,482. Then another point. Is there anything in the point that a gold bullion standard—that is to say, a standard where the token currency is convertible into bullion—is more liable to manipulation than a gold specie standard—that is, a gold standard with a gold currency. Is the bullion standard, such as this country has got, more liable to manipulation than the standard which prevailed before the War?—What is meant by manipulation?

14,483. The term has been used very frequently by witnesses. Manipulation means tinkering with the currency; that is to say, to expand and contract it at will by the currency authority against, if you like, the interests of the country?—And is it suggested that it is easier in the one case than in the other?

14,484. Yes. Which is the more liable to this manipulation?—Neither Sir Charles nor I see any difference.

14,485. Would you regard a gold bullion standard as a desirable and practicable standard for India?—No. To-day do you mean?

14,486. I had in mind to-day?—This is a scheme analogous to the one which has been circulated.

14,487. No. What I had in mind was not a gold standard with a gold currency in circulation, but a gold standard under which the token currency of the country would be convertible into gold bars, and not into gold coin, in the same way as the token currency of this country is convertible into bullion?—It is not the standard which I should advocate at present.

14,488. Where is the difficulty? Perhaps I might add that under such a standard I had in mind that the full legal tender right of the rupee would not be disturbed and therefore no incentive would exist for the conversion of rupee coin into gold?—Without consideration, and I have not considered it—I should not advocate it for the reason that I think it would require large resources of gold to an amount which I cannot estimate, but more or less comparable with that mentioned in the paper which has been circulated. That paper as I recall it now, called for 100 million sterling in gold and the loss of 500 million or 600 million ounces of silver. I am not at all sure, speaking without any actual personal knowledge of India, that the mere fact of elevating gold into that position, even if you maintain silver where it is, will not cause a great number of holders to prefer gold in place of silver. Have I made myself clear?

14,489. Yes. You would require more substantial gold reserves before any such attempt could be made, but it would not require, as you appreciate, any addition to the holding of gold by India for purely circulating purposes?—No I understand that. There is none in use now for that purpose, is there?

14,490. It has disappeared. It is in hoards?—It is the equivalent of hoarding.

14,491. Yes. You would, I take it, say that what would be necessary and essential is to strengthen the gold reserves held by the currency authority before any such attempt might be made?—I should.

14,492. One other question. It refers to a statement which you made earlier in your evidence regarding the countries which enjoy a gold circulation at the present time. You referred to the United States as the only country which had a gold circulation?—Now.

14,493. Now. Did you refer to the circulation of gold coin or had you in mind the circulation of what are called gold certificates?—I was thinking of both. I believe there is a considerable amount of gold coin in circulation as a matter of fact. I was rather surprised to see it when I was there last. I was thinking of the two together; I do not differentiate between them.

14,494. What struck me in looking into figures a little was that the circulation of gold certificates which, in tho year 1922, was in the neighbourhood of 200 million dollars, rose rapidly to 1,000 million dollars and has been kept at that level since it was reached; and simultaneously with that increase of gold certificates there was a proportionate decrease of Federal Reserve Notes. My point is whether you regard this phenomenon as purely temporary or whether you regard it as a permanent policy in the United States to put gold in the form of gold certificates into circulation?—I understand it is purely temporary—that it is a matter of convenience.

14,495. I take it because the authorities in the United States regard that amount of gold as redundant to their system?—I should not go as far as that. I would say that owing to the large amount of gold which they have in the United States, they found it convenient, especially to the Bank figures, that a certain amount should be absorbed in gold certificates, but could not state that the amount is so determined.

14,496. As a temporary measure to fit the present condition of things?—Yes.

14,497. I would like to ask one or two questions of Sir Charles Addis with reference to the matter of the fixation of the gold value of the rupee. If I understood you correctly, Sir Charles, you suggested it was premature to fix the gold value of the rupee now because you are not satisfied that the internal and external purchasing power of the rupee have adjusted themselves. I would like to know what makes you think that this is the case—that the adjustment has not taken place?—(*Sir Charles Addis.*) I understand the rate at which the exchange has been maintained at about 1s. 6d. has had to be assisted by artificial methods, and that the exchange, if left to itself, might at one time have been considerably higher.

14,498. That is, if one had allowed exchange to take its uncontrolled course?—Yes.

14,499. But in view of the fact that the external value of the rupee has been maintained stable at 1s. 6d. for over a year is it not a reasonable presumption that internal prices—whether the exchange has been manipulated or not—will have adjusted themselves to that external value? A whole year has elapsed with the external value of the rupee fixed at 1s. 6d. Must not the presumption be that the internal prices have adjusted themselves to that?—I think it is, but it is only a presumption. It is a question of how long you take. You have taken one

year. I think the Cunliffe Currency Committee suggested two years as a suitable period, and in view of India's particularly abrupt seasonal fluctuations I am not satisfied that a year is enough in present conditions.

14,500. But if my presumption were fortified by index figures, would you ignore that? I will take the cost of living figures, which of course have an important bearing upon the level of wages, usually the greatest source of disturbance. I will quote you the index figure of the cost of living in Bombay in December, 1924, it was 174 in terms of gold. It is now 175, which compares with the cost of living figure (I am giving you the League of Nations' figures) in the United States, 32 cities, of 173 in December, 1924 and 178 in December, 1925. I will give you the United Kingdom figures converted into gold, namely, December, 1924, 173; and December, 1925, 174, with minor fluctuations in between. Does not the presumption to which I have referred, and the fact that these index figures show an extraordinary degree of correlation and stability, alter your view?—No. I was aware of those figures in general, but do they suggest more than a presumption? I should like to feel a little more secure. The question of the standard of living itself may be subject to very considerable alterations. When you compare the standard of living in India with the standard of living in this country or in America, it seems to me that you are comparing very nearly incomparable things.

14,501. How does that affect it? These indices are composed of the goods which are needed by an average person of a certain standard in order to live. If the standard changes then the present composition of the index is wrong?—The index is no longer valid when with a different standard of life different articles enter into its composition.

14,502. If you construct a new index, that surely cannot be put against stability. The new index will not change stability when it has been established?—A new standard of living may change the stability of prices materially by an alteration in the demand for different commodities including gold.

14,503. But you really think that the standard in India, which is a very conservative country, is liable to violent changes within the short period of a year or two years?—I do not know. I have been told that the standard of life in India has been raised of late years and that the process is continuing.

14,504. May I put it in another way, because it is a very important question. What would your test be as to whether the internal and external prices have adjusted themselves?—The infallible test is the exchange. If the exchanges remain steady over a period which is considered adequate, that may be taken as an infallible proof that the prices inside have adjusted themselves to the prices outside the country.

14,505. When would you regard the exchange as being steady? Supposing the exchange were entirely uncontrolled we should have in India very wide fluctuations owing to purely seasonal causes. You exclude those. But what would be your test? Let us say that in the busy season the rupee exchange were to appreciate in terms of gold—and violently sometimes, depending upon the size of the crop. In the slack season, following a bountiful crop, you would have an accentuation of the depreciation of the rupee. I should like to be enlightened as to how you would test whether the exchange is stable or not?—That offers a difficulty, but not an insuperable one. It is comparatively easy to allow for seasonal changes by arranging the items in order of magnitude and taking as the mean that figure which has as many items above as below it.

14,506. Would it necessarily be an average rate?—It would be a mean.

14,507. Supposing, for instance, you did nothing; you did not interfere at all and allowed the exchange to move according to seasonal movements?—I am not a mathematician, but there are ways in which you can measure that. The obvious one is the average rate, but it is not the best for such a purpose. A preferable way is to take what is called the median, that is, to bisect the fluctuation dispersion above and below the line.

14,508. That would necessitate allowing the exchange to take its uncontrolled course?—No; I do not mean that. What I have in mind is to allow it to take not its uncontrolled but its natural course. There are always controlling forces at work. The banks make preparations for the season in advance. They do not wish to be left to face fluctuations when they occur. They try to make money by anticipating them. It is the same with speculators who are conversant with seasonal fluctuations. All these influences are at work, and the result is to give you the true test of the harmony of external and internal prices.

14,509. You would pay little attention to the indices?—I do not find them convincing.

14,510. (*Sir Maneckji Dadabhoy.*) Mr. Governor, your opinions on gold currency carry so much weight that I feel compelled to go into the matter a little more closely with a view to seeing if I could not induce you to take a less panicky view of the difficulties which we have to face in this connection. I shall at present leave aside the mentality of the people and the backwardness of the policy of going back to gold currency, as people state they would not like to carry gold sovereigns in their pockets. I shall also at present not take into consideration what you stated in answer to Sir Henry Strakosch that heavy withdrawals of gold might enable the commercial and financial communities to draw their conclusions, and contract credit. I shall not refer to those matters at present. We will ignore those considerations. We will only look at the state of facts which has existed since 1835 from the time when the Government of India took direct control of the currency of the country. I am going to place certain figures before you and see whether they will enable you to change your mind or qualify your opinion.

14,511. (*Chairman.*) Would you indicate to the Governor what the final question will be before you give the figures, so that he may know in what particular light to look at them?

14,512. (*Sir Maneckji Dadabhoy.*) I shall ask him to look at them in the light that our proposal for a gold currency in India is based on the absorption within the next ten years of £103,000,000 sterling, and according to the figures I shall place before you, we are in a position to say that more than £450,000,000 of gold has been imported into India; will there therefore be any difficulty in securing this £100,000,000 of gold in another ten years?

14,513. (*Chairman.*) The question will be: will there be any difficulty in obtaining that amount of gold?

14,514. (*Sir Maneckji Dadabhoy.*) I will now place those figures before you. They are approximately correct, though there might be small errors. From 1835 to 1909 we have imported net into India £167,250,000 of gold; from 1909 to 1914, the period of five years just preceding the war, £106,250,000; from 1914 to 1919, which covered the major period of the war, £42,500,000; in 1919-20, £25,500,000; in 1920-21, £4,250,000; in 1921-22, £2,125,000 (exports); in 1922, £12,800,000; in 1922-23, £27,000,000; in 1923-24, £20,000,000, and in the last year, 1924-25, £54,000,000. Those have been the imports of gold into India. You will see that the average per year would work out at a very large figure. Taking five-year periods, as I have shown you through these figures, it will clearly appear that large quantities of gold have been imported into India without any trouble. Therefore, would there be any serious difficulty in our obtaining £103,000,000 in the next ten years if our proposals are to fructify?—(*Mr. Montagu Norman*): I see no comparison

between the figures that you have been good enough to read and the proposal which is before me. The figures which you have been reading represent gold imported on private account as and when it suited the individuals to purchase that gold. If it suited them, they bought it in a week, in a month, or in a year. If it did not suit them, they left it alone. The proposal before us, the only proposal with which I am familiar, is that you should recommend an undertaking to acquire a certain amount of gold during an unknown period, and should, at the same time, dispose of a certain amount of silver. I adhere to what I ventured to say last time I was here.

14,515. You think the proposal is of a different character?—Of a different kind.

14,516. I will read you an extract from a memorandum* submitted by Sir James Wilson, who had a long Indian experience and was Finance Minister for the Government of the Punjab.—Submitted where?

14517. (*Chairman.*) This is a memorandum we have received from Sir James Wilson.—To this Commission.

14,518. Yes; in this connection.—Very well.

14,519. (*Sir Maneckji Dadabhoy.*) It was an address which he delivered in February, 1923. It was a paper which he presented before a public body, I think.—May I ask was this address in relation to the proposal which has been put before me as a witness?

14,520. (*Chairman.*) No; it cannot have been that.

14,521. (*Sir Maneckji Dadabhoy.*) Not exactly.

14,522. (*Chairman.*) We had better look at Sir Maneckji's quotation and see what it is. Will you read the passage?

14,523. (*Sir Maneckji Dadabhoy.*) Yes. I want to place certain figures before the Governor and see whether they will enable him to qualify his opinion.

14,524. (*Chairman.*) This is a letter from Sir James Wilson, K.C.S.I., to this Commission, in which he submits: "For the information of the Royal Commission copies of (1) a Paper on 'Indian Currency and Exchange' which I read in February, 1923, to the Economic Society of Edinburgh, and (2) an article on 'Indian Currency Policy' which I am sending to the Asiatic Review."

14,525. (*Sir Maneckji Dadabhoy.*) The heading is: "India's Stock of Gold and Silver," and Sir James says: "From time immemorial India has been a great absorber of the precious metals. From 1835 to 1919 India imported net £316 millions worth of gold, of which more than half was imported since 1600." That must be a mistake; it must be "1900." Then I would draw attention to this passage: "I reckon that at present the quantity of gold in the possession of mankind is about 1,000 million ounces—enough to make 4,250 million sovereigns—and that of this quantity India possesses about 100 million ounces—about one-tenth of the world's total stock."—Of gold?

14,526. Yes: "And, as less than six million ounces is in the Government Treasury, nearly the whole of this large quantity is held by the people in the form of ornaments or hoarded coin or bullion. During the five years before the war she was absorbing on the average five million ounces per annum—nearly a quarter of the world's new production." Then later on he says: "The total quantity of gold held in India includes nearly 100 million gold sovereigns, which before the war were legal tender, at the rate of 15 rupees per sovereign and were coming into circulation, especially in the Punjab. But now that they have been made legal tender for only 10 rupees in accordance with the Secretary of State's policy, the sovereign is no longer in circulation in India because no one will tender it for 10 rupees when he can get for it in the bazaar over 16 rupees. For the time being, therefore, gold, even in the form of sovereigns is out of the reckoning as regards circulation." With this information as to the hoards of gold in India, with 100,000,000 sovereigns in the country probably hoarded, which would come out if a gold currency were introduced, do you still maintain the view which you have taken about the difficulty of introducing gold currency in India?—On the proposal put before me?

14,527. Yes.—I do.

14,528. Then assuming that the Commission decides to go in for some sort of gold currency in India, what would be your recommendation, whether we should have sovereigns or whether we should have a distinct Indian gold coin, or gold mohurs?—I do not know sufficient to make a recommendation on that point, I am afraid. I have not studied it.

14,529. Will you have any objection to the establishment of a gold Mint in India for the purpose of coining sovereigns in case the Commission decides to recommend a gold currency?—Does not it exist already?

14,530. If the coinage is not gold the sovereigns are not coined. You would permit coinage of gold?—I do not think I can answer that question. It does not concern me.

14,531. It does not concern you as Governor of the Bank of England?—No.

14,532. As Governor of the Bank of England have you any objection to India's establishing a Mint and coining gold sovereigns?—I have not considered the question. The establishment of a Mint for that purpose does not concern me directly at all.

14,533. But speaking from your experience, can you tell us whether you have any objection?—I should have to consider it. I could not give you an answer right off.

14,534. You are not in a position to say?—No.

14,535. The Dominions are allowed to coin sovereigns, are not they?—Some of the Dominions coin sovereigns, I believe—the Union Government and Australia, I think, does.

14,536. Do you differentiate the case of Australia from India in any way?—I do not think I should, but I was not concerned with the Australian arrangement.

14,537. You would not differentiate?—No.

14,538. I want to ask you one or two questions about stabilisation. From what you have stated this morning to Sir Purshotamdas Thakurdas, as well as from your previous statement, I gather that your opinion is that we should stabilise as early as possible. But Sir Charles Addis thinks we should not stabilise it. Those were your words. You do not think we should do it at present?—Did you say my words?

14,539. No; Sir Charles Addis' words. You did not take a view much different; but as you have given advice to all the other countries to stabilise as early as possible, in conformity with that advice you would like India to stabilise, too?—I am entirely in favour of stabilisation.

14,540. I gather from your, as well as from Sir Charles Addis' evidence, that this is the psychological moment for stabilisation?—I am of that opinion.

14,541. In your opinion?—In my opinion.

14,542. In your opinion it is? And in Sir Charles Addis'?—I gather it is not. (*Sir Charles Addis.*) It is not.

14,543. In case Sir Charles Addis's opinion is accepted by the Commission—I am assuming that—would you think that the Commission should recommend the option of a provisional rate for a period of 12 months during which time internal prices may be adjusted to external prices, as stated by Sir Charles?—(*Mr. Montagu Norman.*) Are you addressing me or Sir Charles?

14,544. (*Sir Maneckji Dadabhoy.*) I am addressing Sir Charles.

14,545. (*Chairman.*) We ought to remind Sir Charles of his answer on that point. It is in paragraph 13,733. "If one is to eliminate fluctuations, that postulates that one has accepted some mean, does not it?—It implies the adoption of some mean

* Appendix 89.

which, while it remains steady so far as seasonal causes are at work, is indeterminate as regards permanent or quasi permanent economic effects, that is to say, the mean should be altered from time to time, if it is found that trade is permanently tending in that direction." That really replies to your question, does not it?

14,546. (*Sir Maneckji Dadabhoy.*) No, not exactly. My question was a specific one. In case we accept your suggestion, but we say this is not exactly the psychological moment to adopt it, because the time has been too short, and there has not been sufficient time, as you have stated, for internal prices to be adjusted, and you would like to wait for another year, in that case would you advise or recommend this provisional rate for one year or 16 or 18 months after that, if 1s. 6d. is adopted; and if it is not adopted, then that the Government of India would have to reconsider the question?—(*Sir Charles Addis.*) No, I do not think it would be advisable to set up a new rate.

14,547. You do not think that advisable?—No.

14,548. Then we must take the risk, I understand, of fixing a ratio, whether the next monsoon upsets it or not?—No, my recommendation was contrary to that—that you should defer your decision until the exchange has been given a free course for a longer period.

14,549. Meanwhile you would only provide for seasonal currency, as you have stated?—Yes.

14,550. Making adequate provision to meet seasonal currency?—Yes.

14,551. You also referred to the various methods which could be adopted; and one of the methods you suggested to-day was an option average rate. An important witness suggested that also to us at our last meeting. If we decide to take an average rate, how many years' average do you suggest? Would you recommend us to take three, or five, or two, or four?—I do not recommend taking an average rate.

14,552. You do not recommend an average rate at all?—No, I think that is delusive.

14,553. It is only one of the methods suggested?—I said that you could take the method of the average or the mean, or you might take what is called the median. You must eliminate seasonal fluctuations; for if there were extreme fluctuations in any one year, that might vitiate the average as a test. If the extreme peak of the exchange above, or of its depth below the line, lasted for a very short period, or on the other hand were extended for several months, it might make such a difference to the average as to render it as a test of prices delusive.

14,554. It is not different from anything else. After all, the ratio is mere speculation and adjustment?—Speculation? The ratio of exchange?

14,555. The ratio to be fixed?—No, I do not take that view. I regard the exchange, allowing for the natural play of the market, to be the real measure of the relation of internal to external prices. I do not see how it can be otherwise.

14,556. (*Chairman.*) I will pass on now, if I may, to the question of a central bank, Mr. Governor, and we look forward to your assistance on this somewhat important question. Under the present system in operation in India, the control of currency and the currency reserves are in the hands of the Government, while the control of credit and the banking reserve is in charge of the Imperial Bank. Do you regard this division of control of currency as desirable?—(*Mr. Montagu Norman.*) No.

14,557. What makes it undesirable? What are the disadvantages of such a state of affairs?—I am afraid I looked upon the answer to this question and these earlier questions as axiomatic, and I thought there would be no difference of opinion about them.

14,558. Let me put to you what has been given to us in evidence. For instance, we have been told that there is an essential unity in policy as regards supplies of credit and supplies of currency?—That is just what I was going to say.

14,559. And division of control between the two leads to lack of co-ordination, and to difficulty in establishing any settled policy as regards either?—Yes. Furthermore we might say from the experience we have had in other countries, those countries have been best managed, and have been most successful, in which those two forms of currency and credit have been in one control. I think this is practically so without exception.

14,560. Unification of control, it has been put to us, leads to a state of affairs in which the most efficient and the most prompt use can be made of both reserves?—Yes.

14,561. Whereas if there is division, efficient use of either is doubtful?—Yes.

14,562. That I understand to be your view?—Yes.

14,563. Secondly would you regard a system under which the control of credit and currency, and the currency and banking reserves, are in the hands of a single authority as a more desirable organisation than the first? I think the answer to that follows from your previous reply?—Yes.

14,564. Who in your view should be the authority to whom these combined functions should be entrusted?—I can only say a central bank.

14,565. You base that answer on the experience of currency systems of other countries?—Yes.

14,566. I want to lead up towards ascertaining your views as to the proper constitution of a central bank. I think I can elicit the information which we seek in the most convenient form by taking the Imperial Bank of India as an illustration, and asking in what respects would it be necessary to alter the present charter of the Imperial Bank of India to enable it to function as a central bank in the true sense of the word?—Whether I recommend that or not?

14,567. No, not what you recommend; but if the ideal was to have a true Central Bank on a sound basis, in what respects would it be necessary to alter the present charter of the Imperial Bank in order to enable it to function as a true central bank?—But that is not the course that I should recommend.

14,568. It is not?—No.

14,569. Let us take your own recommendation?—I am anxious not to give answers which may mislead you.

14,570. I want to elicit your own views before I lead you into hypotheses?—Perhaps I may give you a few notes that I have here in regard to the functions of a central bank?

14,571. If you please. It would be most valuable?—For instance, it should have the sole right of note issue; it should be the channel, and the sole channel, for the output and intake of legal tender—currency. It should be the holder of all the Government balances; the holder of all the reserves of the other banks and branches of banks in the country. It should be the agent, so to speak, through which the financial operations at home and abroad of the Government would be performed. It would further be the duty of a central bank to effect, so far as it could, suitable contraction and suitable expansion, in addition to aiming generally at stability, and to maintain that stability within as well as without. When necessary it would be the ultimate source from which emergency credit might be obtained in the form of re-discounting of approved bills, or advances on approved short securities, or Government paper. That in a nutshell is my answer.

14,572. You are generally acquainted with the outlines of the constitution of the Imperial Bank?—Yes.

14,573. Is there adequate provision in the present constitution for the delimitation of the functions of the Imperial Bank at present for the performance of these various functions? Let us take them one by one: note issue, for instance, is not one?—No.

19 *April*, 1926.] The Right Hon. MONTAGU NORMAN, P.C., D.S.O., and SIR CHARLES ADDIS, K.C.M.G. [*Continued.*

14,574. The outlet and inlet for legal tender?—It is not.

14,575. As the holder of Government balances?—Not entirely, I believe, but mainly.

14,576. Entirely, I think?—Is that so? I thought there were a great many holdings in Treasuries in opposition, so to speak.

14,577. I think substantially it is?—Substantially.

14,578. As holder of reserves of other banks, it is not?—No.

14,579. As agent for the Government's financial operations?—In part only.

14,580. As to your sixth function, which is to act as currency authority in the expansion and contraction of currency and the maintenance of stability, it is not at all, as I understand it. That is so, is not it?—I believe so.

14,581. As provider of emergency credit through the means of re-discounting, how would you say that the function of the Imperial Bank stood as regards that?—I am not qualified to tell you precisely, but I believe it does render considerable assistance; but that such assistance as it is able to render is very much overshadowed by the operations of the Government; thus there is divided control with no assurance of unity of policy.

14,582. So that in order to make the Imperial Bank function as a true central bank, if that course were to be adopted, it would be necessary to transfer to it the note issue, to make it the sole inlet and outlet for legal tender, to provide for it holding the reserves of other banks, to make it sole agent for the Government's financial operations, particularly its external operations, and make it the currency authority in respect of its position as holder of the note issue; and the same regard should be paid to its position as re-discounter and provider of emergency credit?—And I mention specifically the fact that it would need to be the exchange market, which I think it is not.

14,583. That would be consequential upon its being agent of the Government for external transactions?—Yes.

14,584. I interrupted you when you were about to tell us in what respect should the present charter of the Imperial Bank be altered at the moment when you said that would not be your recommendation. Might I then ask what would be your own recommendation on the broadest lines, as to the provision and the establishment of a true central bank?—I believe the loss to India, and especially to the spread of banking facilities throughout India, would be great if the Imperial Bank were subjected to the restrictions usually regarded as proper in the case of a central bank. I should, therefore, like you to consider whether your end would not be met (and the end of the proprietors of the Imperial Bank, who deserve to be considered) if the Imperial Bank were to renounce its special privileges, and to receive freedom from its special restrictions, and a new bank were to be set up to acquire those special privileges and to perform the other functions which I have enumerated to you; the new Bank to obtain its capital from the existing proprietors of the Imperial Bank, who would thereby be left where they are to-day. The question of management and staff to be left for adjustment by arrangement between the new Bank and the Imperial Bank. In that way I believe that you could do what has been done with success in other countries. You could establish a central bank which would function forthwith, and operate to the great advantage of India at home and abroad. You would not thereby lose what I believe to be the great advantages which the Imperial Bank has been able to grant to India during the last few years; nor would you force the Imperial Bank to give up the traditions inherited from the three banks of which it is an amalgamation. I look upon this solution as greatly to the benefit of the future spread of banking throughout India.

14,585. The Imperial Bank, as you are aware, discharges important functions as a Commercial Bank. Considering the knowledge that you have of those functions, I gather from what you have told us you would find a difficulty in reconciling the discharge of those functions with the position of a true central bank?—Yes.

14,586. Are those difficulties insuperable, or is it possible to reconcile the commercial activities of the Imperial Bank with the activities of the true central bank?—I do not think it would be advisable to combine them—to continue them as a permanent arrangement.

14,587. You mean that for a transition period it may be possible to make some sort of compromise?—It might be.

14,588. But do you look upon that as a desirable method of approach?—No, for myself I should prefer to leave the Imperial Bank with the business and traditions, which to a great extent it inherited from the three other banks, as far as possible unchanged. I believe the maintenance of the activities, the customs, the business of these three banks and their successor throughout India, and especially in remote India, would be a great advantage to India; and I should be sorry to suggest anything which would in any way interfere with it.

14,589. Taking the matter from the other point of view, if the Imperial Bank is to function as a central bank, it would be necessary, as I gather from your answer, to impose fresh restrictions upon its commercial activities?—Yes. Difficult questions would arise in any case.

14,590. And those would militate against its efficiency as a commercial bank?—I think so.

14,591. In particular, its great function of developing the banking system in India?—Yes, and in particular in those remote places where it would presumably be the only banking office. I am not thinking of the big seaboard towns, but I am thinking of places in the interior, where the Imperial Bank has been for the last few years the pioneer, and has done most valuable work.

14,592. You make the expression of your views very clear to me. I take it that it is your view, that by seeking to combine the two functions you get neither discharged with the same efficiency as if the functions were separate?—That is right.

14,593. Following up your reply, assuming some such division of function as that which you have suggested, let me ask you about the constitution of your proposed central bank. Would you tell us anything from the point of view of general principle as to what the position of the governing body of a central bank should be?—As to that I have quite definite views, if I may state them.

14,594. If you please?—First of all, I will begin by stating who I think they should not be. They should not be members of Governments or legislatures, or politicians.

14,595. By members of Governments do you mean Ministers, or high officials also?—I mean both, although I have the word "official" lower down in my list.

14,596. Please proceed?—Members of Government or the legislature, which designations would, I understand, embrace all branches of Governmental authority in India; that being the sole purport of my suggestion. I would also exclude Public Officials, Bankers and persons identified with politics. With such persons excluded I should proceed to recruit the whole body from amongst men of the highest standing engaged in active business in India.

14,597. In your view is it desirable that there should be some co-ordination between the policy of a central bank and the general policy of a Government?—I think it is of the utmost importance that the policy of the bank and the policy of the Government should at all times be in harmony—in as complete harmony as possible. I look upon the bank as having the unique right, to offer advice and to press

such advice even to the point of "nagging"; but always of course subject to the supreme authority of Government.

14,598. Does that imply that there should be some power in the Government ultimately to direct the general policy of the bank?—In my opinion, it certainly does not, and should not.

14,599. Can you advise at all how, under Indian conditions, you would organise the necessary degree of co-ordination between the Government and the bank?—Well, I think that if it is necessary (though I do not myself think it is wise) under the special conditions in India, as I understand them and as they have been explained to me, a small minority of the Board might be representative of the Government of India; but whilst nominated by the Government they should, in my opinion, be drawn from the same source as the remaining directors.

14,600. I understand: of the Board of business men, a small minority should be nominated by the Government?—Yes; I recognise that this may be necessary in India. It is not a recommendation which in principle I like—not at all. I think it wrong almost anywhere, but I have heard it stated in many quarters that something of the kind is necessary in India, and therefore I suggest this as the least objectionable form in which to associate the Government with the governing body.

14,601. I understand this is a concession from your general principle to what you understand to be Indian conditions?—It is very decidedly.

14,602. It has been suggested by one witness that the Government should have an effective voice in reference to the highest financial policy of the bank, and further, that the provisions of the present Imperial Bank of India Act should be retained whereunder the Governor-General in Council is entitled to issue instructions to the bank in respect of any matter vitally affecting the policy of the Government, or the safety of Government balances, and to confer upon the representatives of the Government of India on the Board of the bank a right of a suspensory veto in regard to any action considered to be prejudicial to Government's interest under these headings. Taking those two powers referred to—the power to issue instructions and the right of suspensory veto—do you regard the maintenance of such powers of control as that as desirable?—No; I intended to have dealt with this question a few moments ago.

14,603. I was only putting to you specific cases of the species of control which you referred to generally in your previous answer?—I see.

14,604. You consider that those come under the general principles to which you have already referred?—Yes.

14,605. I wonder from your great experience whether you could illuminate us at all by any description of the species of evil which you would fear from the maintenance of such powers as these, the right of direction and the right of suspensory veto?—I should not wish to see the bank's freedom hampered in any way—least of all by a provision that in certain undefined circumstances freedom of action might be abrogated. We have the experience in Europe that in the case of banks in which the Government has held a considerable measure of control, or there has been a limitation on the freedom of the bank, it has not resulted to the advantage of the community.

14,606. But to the advantage of whom?—To the supposed advantage of the Government.

14,607. In order to assist the Government's Budget?—Precisely; in order to provide an easy way for the moment notwithstanding that it may involve a hard way eventually.

14,608. The specific evil in the cases which you have in mind being that of inflation?—Inflation in one form or another.

14,609. Against such evils you look upon the substantial independence of the central bank as the surest safeguard?—I do, and, on the whole, it has proved a wonderful safeguard.

14,610. Are you aware of anything in Indian conditions, so far as they are within your knowledge, which would make the general principles which you have enunciated less applicable in India than elsewhere?—Only one occurs to me. I do not know whether the same measure of confidence would attach to a note issued by the central bank—as would attach to a note issued by the Government. That is the only difference which occurs to me.

14,611. It would be necessary, therefore, to take into consideration whether the note of a central bank, particularly perhaps a new central bank, would be regarded with the same confidence as a Government of India note?—Or whether that note should not be stated to be an obligation of the Government, or be guaranteed by the Government. This is a question of Indian mentality on which I have no information; but I think it is worth bringing to your notice.

14,612. You suggest the difficulty to which you refer might be overcome by the note of the Imperial Bank bearing the guarantee of the Government of India?—Yes; it would be legal tender in any case.

14,613. If the bank note be guaranteed by the Government, might not that be held to imply some greater power of control over the conduct of the affairs of the bank and its general policy than if there were no such guarantee?—If the Commission are of opinion that the note of the central bank would be well received and pass freely current without any mention or provision of Government guarantee, I should greatly prefer such a note. I only mention this as one of the points which occurred to me in regard to which there might exist special circumstances particularly applicable to India.

14,614. A guarantor is wont to require some protection for his guarantee?—I do not think so, necessarily.

14,615. Under these conditions you do not see any necessity for it?—No.

14,616. You would rely upon that co-ordinated relation between the Central Bank and the Government to which you have already referred?—Yes; because, obviously, the Central Bank will be required to observe certain rules laid down in its charter, and so forth, as Sir Charles reminds me. It is not altogether a free lance. It would be required to hold certain reserves and to observe certain statutory provisions. I cannot see that the Government of India should not be as willing to trust the note of the bank as to trust the bank as a holder of the Government's balances, which it would be as an essential part of the plan.

14,617. Then the only sanction for the protection of the guarantee which I understand you would consider necessary, would be the resumption of control if the statutory conditions as to reserve, and so on, were not observed by the bank?—Yes.

14,618. Continuing to contemplate your suggestion as to a true central bank, in what manner, in your opinion, should the Government be compensated for whatever loss it suffers from handing over to this bank the sole right of note issue?—Well, this is a difficult question, because I believe the greatest advantage which a Government can have is a rich central bank; but I admit that it may be necessary to make some arrangement. There are in my opinion two alternatives: either that you set aside all the reserves, and after the payment of a minimum dividend, the profits would go to the Government. That is the usually accepted practice now in new banks, but I do not believe it to be the best. I prefer that after the Board in its discretion has made ample reserves, the Government shall have a share to an increasing extent in such an amount as is distributed as dividend. I greatly prefer that.

14,619. You would give the shareholders a minimum dividend to start with?—I do not know that I understand you. Do you mean would the Government guarantee them a certain dividend?

14,620. No. What I was wondering was whether the first distributable profits should go up to a minimum amount?—Distributed profits, yes; I think until you get a certain dividend the Government should get nothing.

14,621. I accept your refinement; there would be a participation in distributed profits after provision for reserves?—I believe that is fairer to both sides. It does not establish a Rubicon the crossing of which would be to the advantage of one party and not to the interest of the other.

14,622. It gives the bank some interest in life?—It gives the bank some interest in life both present and future. I think it could be made to remunerate the Government with greater fairness than the other and more usual arrangement, and it would not be difficult to work out the scale, though I have not attempted to do so except *pro forma*.

14,623. Were that method to be adopted no doubt it would be a convenience enabling to be taken into account all the various items in the cross-account between the Government and the bank as regards services performed and benefits received?—Yes.

14,624. On a more detailed question, would you be in favour of a separation of the banking and note issuing activities of the bank by the establishment of two distinct departments; that is, a banking and an issue department with accounts kept separate one from the other, or would you favour the Continental system of combining all the activities of the bank in one department?—Here I should attempt to get the best of both worlds. I think it would add considerably to the confidence which would be felt in the note in India if the issue department were separate, and published a separate statement which all might understand and read and grasp without going into the intricacies of banking. Therefore I advocate separate accounts for the banking and issue departments. On the other hand, I am not aware of any instance in which there is a separate account without a limited fiduciary issue.

14,625. Of limited but fixed amount?—Yes; and I am not positive whether it would be possible with proportionate cover of various kinds for the account of the issue department to be separated from that of the banking department. I think it would. I do not see why it should not, but it is subject to that being possible.

14,626. I am not sure that I quite follow whether, in your opinion, there is any insuperable difficulty in having a proportionate reserve and separate accounts for the banking and issue departments?—Some people have thought there is. I have never seen that there is, but amongst others with whom I have discussed the subject there are those who hold the view that there is some insuperable difficulty. I am not myself of that opinion, but there is no precedent to which I can point in support of my view.

14,627. I think it has been suggested that the difficulty is that the liabilities of the issue department would in that case, have to be the total notes issued to the banking department, and that that would give the banking department scope and opportunity for manipulation of a sort which is not clear to me at the moment; but it is suggested that there would be opportunities of manipulation which might enable the bank as a whole to circumvent the reserve provisions. Do you attach any weight to that consideration?—No; I do not. I have not attached any weight myself to the various objections which people have thought to exist to this suggestion, including that one which you have mentioned. I believe the system of dual accounts could be worked.

14,628. Entering further into the matter of reserve, can you say at all the nature of the reserve which should be held in India against a note issue by a central bank?—Well, this is rather bound up with the last question. I find it difficult to disentangle the two.

14,629. Take it on the assumption that we have a separate issue department, in the first place, and then we can deal with any differences afterwards?—Yes; but are you assuming that there would be a fixed fiduciary issue; because that I have not considered?

14,630. Would you give us the benefit of your opinion on that topic?—No; I think that is so essentially an Indian question that I do not think I am competent to express an opinion on it.

14,631. Then I think the most illuminating way would be to take the more general question, and take it on the basis of a percentage issue?—Yes.

14,632. Take the percentage issue and assume that it is possible to organise the percentage issue in a separate issue department?—Yes. I should then like to see, say, 40 per cent, as a minimum mainly in gold and partly, at any rate to begin with, in gold securities. That being the minimum figure, the normal figure would necessarily be considerably higher.

14,633. Considerably higher?—Yes; I take it that that figure as a minimum would provide on the whole for external stability. Provision would then have to be made for internal stability, and I should prefer as security approved commercial bills, and, if you will, short Government securities, and the like. I forget if there is a separate question of silver.

14,634. I may perhaps later on ask you a question about silver, supplementary to this?—Yes.

14,635. First of all, you say that you would fix the minimum percentage of gold and gold securities at 40 per cent. Can you define at all the proportion of that minimum of 40 per cent. which would be held in gold?—Well, I said mainly gold, and I should propose that by degrees the whole 40 per cent should come to consist of gold.

14,636. All gold?—Yes.

14,637. The actual working percentage you told us would be substantially higher. Are you thinking of 50 per cent. or 60 per cent. or what is the figure which you would usually work to?—Here, subject to my ignorance of Indian conditions, I believe that the fluctuation in circulation in India is so great that a bank would probably have to work with 60 per cent. against an average circulation in order to maintain its minimum of 40 per cent. in times of maximum demand. That is the sort of plan I have in mind.

14,638. As to the silver in reserve, what is your view as to the desirability of there being a holding of silver in the reserve?—In the abstract I think it is not a desirable security; but if by law or by custom silver is legal tender or in general use, I think it would be proper that a moderate amount should be held in the reserve—a small amount.

14,639. I should ask you, in order to complete the picture, a question which has already turned up in the course of the discussion. Still assuming the foundation of such a bank as that which you have described, you would regard the undertaking on the part of such a bank to buy as well as to sell gold at all times, or gold exchanges, at fixed prices as essential to ensure the stability of the value of the currency?—No.

14,640. You think not?—I am speaking of gold, am I not?

14,641. Selling gold or gold exchanges, was the form in which I put the question?—I think the bank should buy and sell gold exchanges, but not gold.

14,642. But it is essential to ensure the stability of the currency that there should be a definite obligation to buy and sell at fixed prices one or the other?—One and not the other.

14,643 One and not the other. I am speaking of exchanges?—I think that the bank must be charged with the duty of maintaining the exchanges within certain limits, but should not be charged with the duty of selling gold.

14,644. Then the form of your reply to the question is that it is essential for the maintenance of the stability of the currency that the bank should accept the obligation to buy or sell at all times gold exchange at fixed prices?—Yes.

14,645. Finally, would you regard it as safe for the bank to undertake to give gold or gold exchanges at fixed prices without making special arrangements to provide for the contingency of rupee coin from hoards, for one reason or another, being tendered for conversion into gold or gold exchanges?—No; I think that the bank would require to be protected against that. In order to deal with that the Government should be required, and should agree, to give the bank gold or gold exchanges in return for such hoards of silver as might be tendered to it.

14,646. In your opinion, it would be unsafe to put upon the bank an unlimited liability, as it were, to redeem silver rupees in view of the possibility that silver rupees may, under some condition or other which is not to be foreseen, suddenly, in some circumstances, return from hoards for conversion into gold or gold exchange, and that it should be the obligation of the Government to protect the bank against that burden?—Yes; I think that should be the obligation of the Government. May I add a word to that?

14,647. If you please?—I think it would further be necessary for the Government to take from the bank rupees at any time when they were redundant, and to give to the bank rupees at any time when they were needed for normal circulation purposes, the Government remaining the ultimate purveyor, so to speak of the coined silver rupee.

(*The witnesses withdrew.*)

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# FORTY-FIFTH DAY.

## Wednesday, 21st April, 1926.

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PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER
Mr. A. AYANGAR. } (*Secretaries*).

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Sir STANLEY REED, K.B.E., called and examined.

14,648. (*Chairman.*) You have been resident for many years in Bombay?—Yes.

14,649. You have held responsible positions there?—Yes.

14,650. Are you still resident in Bombay?—No. I only visit Bombay in the cold weather now.

14,651. When did your regular residence in India come to an end?—In 1923.

14,652. You have been good enough to provide us with a memorandum* of your evidence, and, if I may, I will ask you a few questions in order to elucidate the principal matters to which you refer. You say in the first place that in your opinion the time is ripe for a solution of the problems of Indian currency and exchange by measures for the stabilisation of the rupee. Let me put to you, in order to ascertain your opinion on it, an opposite opinion which has been advanced by several witnesses before the Commission, who say "No, it will be more prudent to wait until the future of gold prices is more clear, and until that greater clarity has been obtained by a more complete resettlement of the world's currency systems and the policies, in particular, of the Central Banks of Europe." In your view, what weight ought to be attached to that consideration?—I think considerable weight ought to be attached to that consideration. I do see very great and manifest difficulties in stabilising the rupee at any particular ratio at the present moment. On the other hand, I find that practically every solvent country in the world has made, or is making, very great efforts and some sacrifices at the present time to stabilise its exchanges. I find in India an overwhelming desire that the present temporary measures should be converted as soon as possible into a fixed and definite policy for the stabilisation of the rupee. I find that all eminent authorities—particularly Mr. Manze Fe, to whose opinion great weight attaches—are asserting that there can be nothing comparable to a stabilisation of the exchanges in the promotion of commerce and industry. I do view with very grave anxiety the present large absorptions of gold in India in a form which is not available for currency, and which cannot be converted into currency by any means under the present system, and which, therefore, passes into inert hoards. With the fullest respect for those who hold the contrary view, and with the fullest realisation of the difficulties of the present position, I feel we ought now to make a really serious effort to stabilise our exchanges and to get rid, so far as we can, of these currency controversies which have been racking India ever since I have been in the country, which is more than 30 years.

14,653. The contrary argument, as we have understood it, is this: that if India pegs her rupee to gold now, then she has no defence against any future fluctuations in gold prices, and it is asked why she should not take advantage of her possession of a means of mitigating the shock of exchange fluctuations in gold values by allowing moderate and non-violent fluctuations in her rate of exchange. As I

*Appendix 85.

understand your reply, Sir Stanley, you recognise that there is a possible advantage in that course, but you do not consider it outweighs the advantages of a stable exchange?—I do not.

14,654. In your second paragraph of your memorandum you say that the rupee should be stabilised on a gold standard. May I ask you to expand that and tell us what the general nature is of the standard which you have in mind, and what the leading provisions of that standard would be?—I take it all our currency difficulties in India have arisen from departures, through administrative action, from the policy which was clearly and definitely laid down and accepted in 1898—and only in 1898 after five years' working to the goal which was set down in 1893. That policy aimed at a gold standard and a gold currency. It was accepted as such by the Government of India. It was radically departed from, not by Statute, not after discussion, not after any consultation, so far as I know (and I was in India all the time) with the great financial and commercial interests in India, but by administrative action. To my mind we have now to get back to those fundamental principles, which, so far as concerns any fixed cardinal points in Indian currency and exchange policy, are those which were laid down by the Fowler Committee. As the result of the action of all these years, I do not see how we can possibly hope to go back to a gold standard, supported by a gold currency at the present time, but I think we can go back to a gold standard by fixing our rupee in definite relation to gold. In a very interesting memorandum which was circulated to some witnesses, myself among them, not as emanating from this Commission, but as emanating from an authority which is unnamed but about which there is no mystery, it is stated that it is within the power of the Government of India now to give gold at the ratio to be fixed in large quantities, very much on the lines of the modified gold standard which obtains in England at the present time. That is the immediate step which I have in my mind at the present time—with the fixed and definite undertaking that it will be supported by an effective gold currency, if then demanded, as soon as the Government of India finds itself in a position to supply that currency on demand.

14,655. I understand, generally, Sir Stanley, that your recommendation is, a gold standard now, and a gold currency some day?—Yes.

14,656. Will you tell us what the immediate gold standard will be—how it will be secured as a definite relation between rupee and gold?—It might be secured in two ways. It might be secured as a temporary expedient, by resorting to what is called the gold exchange standard; that is, by selling gold export bills at gold export point. Or, better still, it might be secured by Government, if it is in a position to do so, giving gold in substantial quantities, as I understand the Bank of England does in London, on demand if occasion arises.

14,657. A gold bullion standard?—A gold bullion standard.

14,658. The essential of that standard would be that the currency authority should undertake to buy and sell local currency for gold bullion at a fixed rate?—Yes.

14,659. You say that the object at which to aim is the ultimate establishment of a gold currency. Can you tell us what, in your opinion, the advantages of a gold currency for India would be?—It is a point on which I would not venture to express a very dogmatic opinion, except this—that it seems to me you cannot divorce your currency system from the traditions and habits and customs and the desires of the people who use that currency. The people of India have been accustomed through generations to a full value currency, and if you are going on the gold standard it seems to me you must be prepared to meet that desire by establishing a gold currency. It is argued that a gold currency is unsuited to India, and is too expensive for India, but knowing something of Indian opinion, I say that so long as the gold currency is withheld it will always be demanded. On the other hand, if a gold currency is offered, when perhaps there is a closer realisation of its cost, and of some of its possible disadvantages, we may find that the desire for it, which is now so very strong, will not be so strong, and that we may be spared the expense attaching to a gold currency. But that a gold currency is essential as the goal of the policy to be laid down in order to provide a definite acceptable currency system, I think, so far as my knowledge of India goes, is beyond doubt.

14,660. I am not quite sure I understand you aright. Do I understand you to say that the people of India have been at any period accustomed to a gold currency?—To a full value currency.

14,661. What do you mean by that?—I mean that for years, almost for centuries, the rupee was a full value coin. It was exchangeable for its full weight in silver. It is now very nearly its full value. A full value coin is one to which the Indian people are accustomed, and which they desire, and which they will demand until, when it is freely available, they find that it has not got perhaps those particular advantages which they now attach to it.

14,662. Historically has there been any period in which there has been an actual gold currency? I am asking for information?—I think it is very doubtful. We hear a good deal of the old gold mohur, but my reading of Indian currency history—reading back to the 17th century—is that the gold mohur was more a nominal than an actual circulating coin.

14,663. I do not know whether I have taken it aright, but you have produced this impression on my mind: you really advocate the establishment of a gold currency as the only means of curing the people of India of a demand which you do not yourself consider as probably a very prudent demand?—I would not put it quite in that way. I would not say "a prudent demand." It has been laid down on the substantial authority of the Chamberlain Commission of 1913 that the Indian people are entitled to the currency which they demand. I think we cannot arrive at a satisfactory settlement of the Indian currency problem until we arrange to give the Indian people the currency they desire. If we arrange to give the Indian people the currency they desire, and if there is any conclusive weight in the arguments which have been advanced that the gold currency is expensive and unnecessary, it is possible that we shall then find that the Indian people do not desire a gold currency, which they do desire now, on the principle that what you can get you do not always want. But so long as the present desire for either a gold currency or a policy aiming at a gold currency is unsatisfied or withheld, so long will the Indian currency system, to my mind, be regarded as not meeting Indian requirements and Indian desires.

14,664. I gather it is your opinion that the undertaking of the obligation of providing a gold currency could not be immediately considered?—That is a matter rather for the expert advisers of the Government of India, but I feel that the Government of India would not feel itself in a position to-day to give gold for currency on demand, just as I presume the Bank of England does not feel in a position to give gold for currency on demand, although it is willing to give, and does give, gold in substantial quantities.

14,665. Let me refer you to the proposal which you have had in your hands for consideration—the proposal for a gold standard with a gold currency. Let me refer you in particular to the provisions of the proposal relating to silver. Can you assist the Commission with a general opinion as to the desirability of that proposal?—The most significant point in the proposal which struck me was that I saw no provision made for the normal wastage or absorption of the rupee currency. I do not know what

the figures are now, but they used to be estimated as between four and five crores. I have been told they are about nine crores per annum at the present day. If the absorption of rupee currency is at the rate of nine crores per annum, I cannot see that we need face the expense and disturbance involved in the proposal to melt rupees and sell silver. I do not see that we need be precipitate in reaching the ultimate goal of a full gold currency. I believe, provided that the rupee is stabilised on a gold basis to-day, and provided that either now or in the very near future gold is made freely available in substantial quantities, we might wait for the normal contraction of the rupee currency through the annual absorption of the currency before going to the full gold currency which we have in view, even although it may never be fully reached, rather than resort to the drastic expedient of melting down large quantities of rupees, with all the disturbances it entails and with the possibility that at no distant future date, having melted down your rupees, you have to start coining them again.

14,666. It has been put to us that silver is a great Indian interest, because, for instance, of the large holdings of silver amongst the people of India as a store value; that this proposal for the dethronement of silver would inflict a severe shock on the silver market and on the value of silver, and that that requires a very great deal of consideration from the point of view of the general interests of the Indian people. What is your view upon that aspect?—I think that is an argument which is entitled to the gravest consideration, in view of the enormous quantities of silver which are held in India, but my criticism of those proposals would be that they are more drastic—the dethronement of silver and the possible slump in the price of silver—than is demanded by what I call a reasoned view of the Indian currency situation.

14,667. Turning to the gold aspect of that scheme, it is estimated, as you see, that the amount of gold required would be some £103,000,000 in the course of some 10 years. Are you prepared to express any opinion, Sir Stanley, as to the effect of that extra demand upon gold markets and gold values in the world at large?—That is a consideration quite beyond my knowledge or competence.

14,668. As I understand it, I have gathered the impression that your general view as regards that scheme is, to put it in a word, that it goes too fast?—It is.

14,669. Let me continue your memorandum at the point at which I made a diversion. You deal in paragraph 2 with the question of the ratio. Let me tell you a general difficulty which I felt about your argument, and see if you can kindly assist me in it. You argue, as I understand, Sir Stanley, that we ought to adhere to an established legal standard as regards the rupee, and that is the 1s. 4d. When looking at a standard of that sort you must have regard to the standard *de facto* and *de jure;* and it has been put to us that the *de jure* standard is 2s., and that the *de facto* standard is 1s. 6d, and that 1s. 4d., is neither. I rather wanted to understand how it is you are able to say that the 1s. 4d., standard is the established legal standard? —I would venture to put it slightly differently from the argument you have advanced. We say the *de jure* standard is 2s. Is not the argument that the *de jure* standard is 2s. something like the ancient statutes which lay it down that a person shall be hanged, drawn and quartered for the crime of high treason? It is a *de jure* standard which never had any existence whatsoever. It had no existence in law really, because it was only waste-paper, and certainly it had no existence in practice. Therefore with all respect, I cannot attach the slightest importance to any argument based on the fact that owing to a combination of tragic events the 2s. ratio is the *de jure* standard. Therefore, I come back to the two practical standards, as we may call them. The 1s. 4d. standard was the definite goal of Indian finance and currency policy from 1893 to 1919. It was the goal pursued between 1893 and 1898. It was definitely recommended in 1898; it was accepted in 1898, and it was practised from 1898 onwards. It was maintained until 1917, when it broke under the shock of war—but only to a very slight extent. The real serious break in the Indian standard was not during the war; it was after the war. As I read Indian currency history it is that if the Government had not been led away by the will-of-the-wisp of the 2s. ratio, but had done what I ventured to suggest before the 1919 Commission, namely, pursued the true line of policy, that having followed silver up they should follow silver down, there is not the slightest doubt, it seems to me, that we should have reverted, certainly by 1921, to our long established legal standard of monetary payments, which is 15 rupees to the sovereign and 1s. 4d. to the rupee.

14,670. If I may interpose here, is not the effect of the first part of your reply that we ought not to look at the legal standard—what is merely legal, because undoubtedly what is legal now is 2s.?—That is so.

14,671. So we must really get rid of that word "legal" in our search for a basis?—I do not want to be meticulous, but I would call it the legal *fiction* standard as against an established standard of money payments, which for all those years was 15 rupees to the sovereign.

14,672. I can understand your argument in that it appears to me to be based at first upon two things —upon a reference to substantial facts and merits, and a reference to law; but it is as regards the reference to law that I feel the initial difficulty, because if it is law that the rupee is 2s. then it cannot be law that the rupee is 1s. 4d.?—I fully appreciate your point, so we will call it the established standard of monetary payments from 1898 until 1917, and leave out the word "legal," which I quite see is not quite correct.

14,673. Then we come to the fact that it was the established standard from 1898 to 1917. Let me ask you just one or two particular questions upon that. You say that the ratio was the legal standard of money payments from 1898 until the disturbances caused by the war. When those adjusted themselves Indian exchange fell approximately to 1s. 4d., but it not only fell to 1s. 4d., it also fell a good deal lower than that, and subsequently rose and passed above that level?—That is so, but the fall below 1s. 4d., was merely fractional in comparison with the rise above 1s. 4d.

14,674. That was so, was it, but it did not show any greater tendency to remain at 1s. 4d. in preference to various other rates selected then. I see it went down to 1s. $3\frac{3}{16}$d., and then it rose steadily up to a 1s. 6d. level again?—But I think I should be prepared to argue that if the Government of India had not frittered away—(I do not use the phrase offensively)—the very large gold resources which they held at the close of 1919, and which, if my memory is right, amounted to something like 108 millions sterling, the maintenance of exchange at 1s. 4d. gold would have been, I will not say within their competence, but would have been a mere trifle in comparison with the efforts they had to make commencing in 1907 and again, I think, in 1913 to sell reverse councils in order to maintain exchange from falling below gold export point.

14,675. What I wanted to clear my mind about was whether in your opinion, since the departure from the long period of 1s. 4d., the subsequent movements of exchange, as they are on record, show any tendency for the rate to gravitate towards 1s. 4d.; because the figures at first sight suggest that it is not the case?—I should like to suggest for your consideration that the rise of the Indian exchange above 1s. 4d. is due to wholly exceptional conditions. It is due to the fact that we have had four bumper years, or prac-

tically speaking bumper years, in succession. It is also due to the fact that owing to various causes, chief amongst them being high prices, India has more or less starved herself of imports—or, rather, I should say has rigidly dieted herself in the matter of imports. The result is that we have had this exceptional balance of trade in favour of the country. It is also due to the fact that failing the establishment of any—I will not say legal—ratio, but any working ratio between the rupee and gold, there has not been that normal method of adjusting the balance of trade by the tendering of gold at the Currency Offices in exchange for rupees, which would have had the effect of stabilising the rupee at the ratio when it fell to its long established standard of money payments.

14,676. I do not quite follow what you mean when you say that India starved herself of imports. Do you mean that she starved herself of imports of gold?—I was speaking of general imports of merchandise. She has really had a surplus of gold because she has not bought her normal requirements of merchandise owing to many conditions, chiefly that of high prices. That India has very severely dieted herself in imports of merchandise seems to me to be fairly clearly established. I noted particularly the statement of Lord Emmott the other day on the decline in yardage of piece goods imported, and there are many other commodities. Therefore I think the rise of the rupee to 1s. 6d. has been due to very exceptional causes.

14,677. But gold also is a commodity, and it is a commodity which India has preferred to buy during these years in order to make up the balance of her trade?—That is so.

14,678. How does that affect the exchange position? As regards the exchange position, must not gold imported be looked upon as a commodity like any other?—I have seen it argued—although this is a point on which I cannot express any very definite opinion—that the rise in exchange has also had its effect on the purchase of gold. It has made gold relatively cheaper in comparison with articles of merchandise. If that thesis is correct, I think it is entitled to very grave consideration in this matter. Those who are accustomed to dealing with the Indian market know that there is no community in the world which reacts more quickly to what it considers to be high prices. When prices are what the community consider to be above fair value, they do not buy, and that this factor has been operating in the last four years I think is fairly clearly established by the trade figures.

14,679. In the next paragraph you refer to the volume of contractual obligations which were entered into at the 1s. 4d. rate, and I understand you put that forward as a reason for the restoration of that rate. What would be your opinion on the contention that all such relations have been upset by the long period of fluctuating exchange through which India has passed since 1917, and that the bulk of new contracts has been built up round the 1s. 6d. ratio?—If I may put it slightly differently, I say my fundamental point is this. The established standard of money payments is one which should never be disturbed except for reasons of paramount necessity. I agree entirely with those passages in the Minority Report of the Committee of 1919, which say that these should be regarded as less open to modification than any other Legislative Act. That is my first and main point, and everything is subsidiary to that; but my answer to the specific question which you put to me would be that the volume of contractual obligations between 1897 and 1917 is possibly considerably larger than the volume of contractual obligations entered into since 1917, especially when we find that for so many months, not to speak of years, those contractual obligations were entered into round about 1s. 4d. The first date at which I see the exchange touched 1s. 6d. was October, 1924, and even after that it fell below 1s. 6d. Using that as a purely secondary argument, that is my secondary argument.

14,680. Let us take these two arguments in turn. First of all as to the first—that the ratio should never be disturbed—a critic might put this against you, and I should like to know what your reply would be. He might say, "Yes, I entirely accept that, the ratio should never be disturbed arbitrarily; but as a matter of fact in this case the 1s. 4d. ratio was disturbed long since, in 1917, and now you have in its place another ratio of 1s. 6d. Therefore your contention that the ratio should never be disturbed is now an argument in favour of the existing ratio, that is, 1s. 6d. "?—I should venture to differ, with all respect, from that proposition. I say you had your established standard of money payments extending over this very long period. It was an established standard, definitely accepted and worked to, and to which the Government was committed over this very long period. Therefore there is attached to this standard a weight far transcending that which can be attached to any temporary fluctuations. Moreover, I would put this very strongly indeed—that if you accustom a people to thinking that your established standard is a thing of small or light account to be altered to-day or to be altered to-morrow, or to be altered according to a rate which may be practical, which may be fictional, which may be impossible, without special reasons, then you are creating in the minds of the people a very dangerous precedent indeed. You are leading them to think, as I said before, that you regard this not as a weighty matter, but as a light matter, and they may come to regard it in the same light too; and if for any reason your new ratio becomes unattractive it will be to them a comparatively small matter to alter it again.

14,681. As I follow that argument, your view might be affected if, whatever ratio were selected at the present time, it were to be supported by a mechanism which it was beyond the power of the Government to alter?—I would not put it quite like that.

14,682. Because, you remember, your argument was based on the suggestion that the ratio could be altered at will. But suppose a mechanism was adopted which would make it impossible for the Government (or for the Currency authority, whatever it might be), to alter the ratio at will, then that argument would be met, would it not?—Not fully, because I take it that any alteration in the ratio must be by an act of the Legislature, and if you accustom the Legislature to thinking that an alteration of the standard of money payments (if I may use my own words) is a thing which may be considered quite light-heartedly, you may have another Legislature in the very near future applying the same tradition and altering your standard again.

14,683. You see, Sir Stanley, that we are in the unfortunate position in which there has got to be an alteration of the legal ratio by an act of the Legislature, because the present legal ratio of 2s. is obviously one which it is impossible to adopt and maintain. Can we free ourselves from this necessity, which you consider so regrettable?—You cannot free yourselves from the obligation of altering what I call the legal fiction ratio. That is inevitable, because it has never existed. On the other hand, the question is to my mind as follows. If when you are getting rid of this lamentable fiction you are going back to what was the established standard of money payments, fixed by expert advice and by Government action over this very long period, and only departed from nominally temporarily under stress of extraordinary measures arising out of the war, you are going back to the one firm definite holding ground in Indian currency and exchange policy. If you are going to attempt to give legal authority to the present market ratio, you are doing quite a different thing. I do not wish to be dogmatic. I do not wish to say that you should not do that, but I do say that if you do it, or if the Government do it, you are going on exceedingly dangerous ground and arousing a widespread belief that the established standard

can be treated as a matter of small account and as a matter of convenience and not as a matter of principle.

14,684. As to the practical interests involved, can you, from your long experience of Indian business, guide us at all as to the volume and magnitude of the interests involved in the contracts still outstanding and entered into on a basis of 1s. 4d. in comparison with the magnitude and volume of the interests involved in contracts which have been entered into since upon other bases, and lately upon the 1s. 6d. basis?—I could not give you any opinion which would be worth the attention of this Commission, except this—that I fancy that most of the contracts entered into on the 1s. 6d. ratio have been very carefully covered through exchange. My own experience is that, warned by experience, people with any foresight have covered their exchange for some little time past.

14,685. Those are all contracts involving external currencies?—Yes.

14,686. But there is a very large volume of contracts which do not?—That is so.

14,687. You say you do not see any insurmountable difficulty in restoring the 1s. 4d. ratio. The current rate of exchange being 1s. 6d., by what method do you propose to restore the 1s. 4d. ratio?—I take it that it would be for the Government to give gold in exchange for rupees at 1s. 4d. I am not at all insensible to the difficulties and to the disturbances which would be involved in such a change. Believe me, I would give anything to feel that they could be avoided. I think they are likely to be much more far-reaching than many strong advocates of the 1s. 4d. ratio consider, but on the other hand, I do feel that whatever course is taken it will involve disturbances, and that we have to take our courage in both our hands and face those disturbances—if they are reasoned disturbances—if they are unavoidable in order to get our Indian exchange and currency policy down to rock bottom for as far ahead as we can see.

14,688. The only way in which you can be sure of following out a definite decision to return to 1s. 4d. is by measures affecting the currency, in substance, measures of inflation, of increasing the supply of internal currency in relation to the demand. Do you think that is substantially so?—I do not know enough of the internal management of currency to make an expression of opinion worth anything. I notice it has been so stated with authority, but I have not enough technical knowledge to express any opinion.

14,689. If it were so, would it be the case that one would have to contemplate that that would create a certain amount of disturbance to prices and contracts in India?—I think it undoubtedly would. I think that is a contingency we must face. I do view with some apprehension the disturbance in internal prices which must follow, but I should be prepared to face that disturbance as part of the price we have to pay for getting our bedrock currency policy. After all, if all the authorities are to be believed, there was a very great disturbance of prices and of industry and of commerce in England when England went on to the gold standard. That disturbance was faced and sacrifices were made for the greater objective which was in view. If we wish to get to rock bottom we must be prepared to pay a certain price for it.

14,690. In order to make your argument perfectly clear, I should like to ask what in your opinion would be the specific advantages to be gained by a return to the 1s. 4d. ratio, to be set against the disadvantages of disturbances to which we have just been referring?—My answer to that would be that if we returned to the 1s. 4d. ratio we should return to the long established legal standard of monetary payments, which I do press as something which must be regarded as almost sacrosanct. I go much further. I have the very greatest doubts as to whether you could, without drastic measures involving very considerable disturbances, maintain your ratio at the high figure of 1s. 6d. if that were selected. We are basking now in the halcyon atmosphere of four bumper years. My memory, as the memories of many of us here, goes back to the famine years of 1896 and 1897 and the famine years of 1899 and 1900, and to the three lean years which followed. Mine is not a theoretical knowledge of those days. I spent many months travelling through the famine districts, where you could travel for days through country which did not produce a blade of grass, much less an ear of corn. I say again that we must not build too highly on these halcyon years. A cycle of lean years is almost bound to come, and when it does come, though we hope and pray the shock will not be as great as it has been in the past, the shock on Indian export trade will still be very great indeed. Frankly, I should view with profound apprehension the possibility of maintaining the ratio of to-day—1s. 6d.—through a series of lean years without very drastic measures which would be very disturbing and whose effects cannot be foreseen. Even whilst this Commission has been sitting a mere temporary lull in the volume of exports has produced such a weakness in the 1s. 6d. rate that the Finance Member has had to come forward with the proposal to issue reverse councils—a thing which was unknown between 1897 and 1907; all through those famine years, on the 1s. 4d. rate, there was never any suggestion of the issue of reverse councils. When the first idea of issuing reverse councils arose, the Government of India and the Secretary of State were taken by surprise, because it was a thing they had never contemplated. If with this very slight lull in the export trade exchange shows this weakness, does it not show that prices and conditions have not yet adjusted themselves to current rate?

14,691. The question of the possibility of maintaining a 1s. 6d. rate, or indeed any other rate, is really a question as to whether the reserves are adequate for that purpose, is it not?—It is.

14,692. Can you express any opinion as to whether the present reserves held by the Government of India are adequate or inadequate for the maintenance of a 1s. 6d. rate in view of the possible contractibility of the Indian currency?—I could not at 1s. 6d.

14,693. That, after all, is the most material, and perhaps the only material or relevant, question for consideration when one is considering whether the 1s. 6d. rate can be maintained or not, or any other rate?—It is possible to argue that if the Government of India had had 2,000 or 3,000 million sterling resources in 1920 they might have stabilised the rupee at 2s.

14,694. The answer to that question does involve consideration of the adequacy of the reserves?—If I may say so, I am enormously impressed when I look down this table of the exchange rates between 1919 and 1925, to find how very rapidly, when once artificial forces were removed, exchange fell to what I call the established legal standard of 15 rupees to the sovereign.

14,695. I was trying, at the beginning, to ascertain whether, in your opinion, there was any tendency to gravitate towards 1s. 4d., and my question went to suggest that there was a greater fall below, and that it was difficult to detect any tendency to settle at 1s. 4d.?—By those figures?

14,696. My figures show that the exchange fell to 1s. 3d. in February, 1921?—I have a different figure.

14,697. However, that is a simple deduction to be made from the figures which perhaps is not much illuminated by question and answer. Now, as to the recent circumstance to which you have just referred in the exchange market. I understand you suggest that it is due to a temporary falling off of exports. I do not know whether it has been suggested in evidence, but it has certainly been suggested in the Press, that it is due to another circumstance, namely, to speculation on the report of this Commission. From your knowledge of the Bombay market, can

you express any opinion about that?—I left Bombay on the 27th March, and the exchange was weak then. You could cover exchange at 1s. 6d., but the fall below 1s. 6d. occurred after I left, so I cannot express an opinion. Up to March 27th, however, I heard no talk of the weakness of exchange being due to speculation.

14,698. I think it has also been announced in the Press that no Reverse Councils were, in fact, actually sold, but that the mere offer was enough to steady the market?—So I gather.

14,699. Would not that indicate a speculative rather than a substantial movement?—I should not like to go quite as far as that, because, there again, you come back to the principle—what you can get you do not always want. If you do not know whether you can get reverse Councils you cover your possible requirements in advance.

14,700. I now pass to your paragraph No. 5, where you deal with the controlling authority. What is your view upon the contention that, under the present system, the currency and the banking reserves of the country are divorced, and that it would be more economical, and desirable in the interests of trade and commerce, to amalgamate the two reserves in the hands of an expert banking authority in touch with the commercial needs of the country?—Are you speaking of the question of the Imperial Bank taking over the Note issue?

14,701. The control of the note issue and the currency mechanism by a banking authority. I would like to generalise the question before referring to the Imperial Bank?—It seems to me that this question of the note issue being taken over by a banking authority is one which does not admit of any easy answer. The note issue has now attained very large dimensions. It has great stability and it commands wide confidence. That has only been attained by very slow steps. Those of us whose memories of India go back for some time realise how very painful and anxious were the steps by which this position has been attained. I for one am frankly very fearful of any disturbance of the authority behind that Note issue which may weaken confidence in it. I do not think that any banking authority would carry the same measure of public confidence as the Government Note, stamped with the King's head, does among the great mass of the Indian people.

14,702. Perhaps there are really two questions involved—first, the status of the Government Note (or of a Bank Note bearing the name of the Government of India), and, secondly, the authority controlling the Note issue and the currency system. What you said rather applies to the first head, does it not; that is, the actual status of the Note as being a Note of the Government, bearing the name of the Government?—That is so. Ten or 12 years ago it used to be said by those in authority that if the Presidency Banks took over the Note issue they could double the Note circulation. It might have been true then, but I very much doubt if it is true now. I think the Note issue in the last 10 or 12 years has been so efficiently handled that if it were put into the hands of a Bank it could not, or would not, be likely materially to expand at the present time. I think that people have very little to complain of, and much to admire, in the ability and the efficiency and the elasticity with which the Note issue has been managed for some time past. On those grounds *per se* I see no object in, and many disadvantages in, a change to a banking authority. I venture to suggest that one is only justified in making that change if it is bound up with other and larger issues. Another and larger issue which I have in mind is that I do attach very great importance to the Imperial Bank taking over the management of the remittance business of the Government of India; and, if it is necessary for that purpose—I do not say it is, but if it is—that the Imperial Bank should have the management of paper currency, that puts the matter in a different light; but if the Imperial Bank can carry out the management of the remittance business of the Government of India (I am speaking of remittance to London of funds required by the Secretary of State, and not the accretions round that natural principle) without managing the paper currency, then I see very great advantages in leaving the Note issue where it is now, and that is in the hands of an efficient Government Department, carrying the full imprimatur and cachet of the Government as a Government.

14,703. Distinguishing between those two questions to which I have referred—that is, the status of the Note as a Government Note or a Bank Note, and who is to control, would you base any deduction upon the experience of other important countries, in which we know that, almost without exception, the control of the Note issue and of the currency is entrusted to a Central Bank?—Absolutely none. I do not attach the slightest importance to the experience of any other country, unless we can establish the premiss that the political, historical and social conditions of that country are comparable with those in India.

14,704. There is a great variety of social, political and historical conditions in all civilised countries on the globe. What are the essential Indian conditions, if any, which distinguish India from all these other countries?—In India the prestige of Government stands immeasurably higher than any Bank, even the Imperial Bank of India. To the Indian people the Government as a Government is the great and dominant force in the country, and I think a weight and confidence attaches to a Government Note which a Bank could not hope to be able to build up for many years, if ever in our time.

14,705. The further point, apart from the status of the Note, is the question of the control of the Note issue and currency system. A considerable volume of evidence has been given before us in India expressing what I must not hesitate to call profound suspicion of the Government as the controller of the nation's currency, on the ground that it is manipulating the currency in a manner which is suspected to be not always in the best interests of India. We have to recognise that this evidence has been given. What is your opinion as to the weight which should be attached to it?—If I may, I would divide that into two heads. There is a great deal of criticism of the policy of the Government in currency and exchange matters—not of its management of the Note issue, but when we are speaking of Government we must remember the dual composition of the Government of India. There is the Government of India in India—the Viceroy and the Governor General in Council, and the Legislatures, which is an authority which we know, and an authority with which we can deal, and an authority with which we are in contact. Then there is the Secretary of State and his Finance Committee, six thousand miles away. That is an authority we do not know, an authority with which we cannot deal, an authority with which we are not in contact, and an authority about whose actions we know nothing. They may be like Cæsar's wife, but we do not know. I think—I say this with a full sense of responsibility—that a great deal of the suspicion of the acts of Government in currency and finance matters is not due to the acts of Government in India as the Government of India, but is due to the measures taken by the Finance Authorities in London, even although they may be the wisest possible.

14,706. You express an opinion in the next paragraph in favour of Notes of small value, such as the 1-rupee Note?—I do.

14,707. You say they form a line of defence against any manipulation of the silver market in face of a demand for the coining of rupees. I am not quite sure that I quite follow the suggestion there. Will you expand it?—I think the 1-rupee note is a very marvellous instance of the confidence in the note issue. The 1-rupee note was not issued except at a time when there were great difficulties in converti

bility. Nevertheless it almost immediately established itself as a circulating medium. I gather that the sole and only reason for withdrawing the 1-rupee note was its cost. If it had not been for the necessity of drastic economy in the Government of India's finances, the withdrawal of the note would never have been considered. I think it is very difficult, in a country like India, to withdraw and issue a note at your convenience and expect it to enjoy the same measure of public confidence. I know from the records put before me that the silver market has been in the past deliberately cornered against the Government of India.

14,708. That is the sort of manipulation which you have in mind here?—That is one. Another is that I think it was laid down that if the Government of India came into the silver market three years in succession the rise in the price would be between 3d and 4d. an ounce. The 1-rupee note is a popular note and does form a means of adding to the rupee currency without coming on the silver market if it is undesirable to do so.

14,709. I understand your argument for the small note is that to the extent to which it can be passed into circulation it liberates the Government from the silver market?—That is so.

14,710. What is your opinion as regards the suggestion that the 1-rupee note should be made legal tender for a certain limited amount only?—It is a point I have never considered. The 1-rupee note circulated with such ease and confidence, and was such a convenience, that I see no obejct at all in restricting its use.

14,711. You say in paragraph 7, "The remittance operations of the Government of India should be conducted by the Imperial Bank of India, through the purchase of sterling in India, and limited to meeting the home charges of the Government of India." Could you amplify how in practice that would work out? How would the limitation be imposed?—In his budget statement the Finance Member makes a very careful forecast of his sterling requirements for the year. He knows within certain limits when that money will be wanted. It seems to me that it is for him to arrange with the Imperial Bank, either acting as principals or agents, whichever is found desirable, to place the Secretary of State in command of that money at the time when it is wanted, and it seems to me having done that the Finance Member's responsibilities have finished. I cannot see, and never could see, any reason whatsoever why the Secretary of State should take upon himself the obligation of finding remittance for the convenience of trade. I know of no other Government Department—certainly I know of none in the Colonial Office—which undertakes to finance the remittances of the Dominions. I do not think any of the High Commissioners undertake to finance the remittances of Australia, or Canada, or South Africa through the sale of council bills or bills on the Australian, Canadian or South African banks. That is a proper and legitimate banking function. Quite apart from that, as a matter of principle, it is from this practice that some of our gravest and most serious financial difficulties have flowed. I do not want to rake among the dead ashes of the past, but I could occupy the time of this Commission almost indefinitely by pointing out the very serious disadvantages which have accrued to India from this practice of the Secretary of State selling bills over and above his own requirements. Could anything be more grotesque than that a Secretary of State like Lord Morley should get up in London and boast to the bankers in London that 70 million pounds of Indian money in London was lent out to London banks at a time when the monetary stringency in Bombay was so great that the head of one of the indigenious banks told me that he dared not go to the Bank of Bombay for an advance on his Government paper because he knew the Bank had not the money to spare? That is only one instance of a thousand. The whole records of the Government of India teem with the embarrassments which have been thrown upon them by this practice of a Secretary of State selling bills for the finance of trade over and above his requirements very often—quite unconsciously I know—in total disregard of India's monetary conditions. It is not necessary to refer to the fact, but it was placed before one of your distinguished predecessors that one of the most eminent financial authorities in India said he was going to write his next despatch in his heart's blood because of the difficulties which had been thrown upon him. The Secretary of State should be placed, and must be placed, in possession of all the funds necessary to meet his statutory requirements. When he is furnished with those he has no place in the money market at all. The elaborate organisation of the exchange banks and the other banks is perfectly competent to finance Indian trade, and that is their legitimate work. I have got this "bee in my bonnet," and I feel very strongly on it, because I do think that one of the greatest grounds for the suspicion of the financial policy and currency policy and exchange policy of the Government of India which we know exists and which we wish to see removed, has sprung from this practice of the Secretary of State assuming these immense financial obligations which are no part of his business and which are no part of his constitutional position.

14,712. As I understand the method which you propose, it would be this—that the Bank should undertake the obligation of providing remittance for the Government of India?—That is so.

14,713. And that it should provide it by ordinary banking operations?—The Government no doubt would have to notify the Bank its requirements for periods, and the whole conduct of the business would be in the hands of the bank. The Government should, as you put it, retire from the exchange market altogether. In order to make it quite clear, you say that the operations conducted on behalf of the Government should be limited to the Government requirements. Do you mean to tie the system down so closely that the Bank acting as agent on behalf of the Government should not take advantage, as any prudent agent acting on behalf of any other customer would, of advantageous periods of laying down requirements in advance?—Provided the matter was in the hands of the Imperial Bank, I would give them very wide latitude to carry it out at their discretion, because the Imperial Bank is in daily, and really in hourly touch with Indian monetary conditions and Indian market conditions. The Imperial Bank being in this vivid contact with Indian conditions would never operate, except in harmony with Indian needs. If these remittances are in the hands of that bank I think it would be a great mistake to tie the bank down unduly by narrow limitations. They would have the general responsibility of laying down such sums as the Secretary of State requires to satisfy his requirements, and they are perfectly competent to be given latitude to carry that out in the best possible way.

14,714. If it were in the hands of the Bank you would be content to leave it to the discretion of the Bank as to when the actual transaction could be made to the best advantage of its customer?—Yes.

14,715. That implies that adequate working balances should be retained in London?—Precisely.

14,716. (*Sir Purshotamdas Thakurdas.*) It has been pointed out to you, Sir Stanley, that no reverse councils have been sold in accordance with the notification issued by the Government of India lately. Would the selling of reverse councils in accordance with that notification be conclusive proof that the ratio of 1s. 6d. has not adjusted itself?—The fact that no bills have been sold?

14,717. No reverse bills have been sold yet. If it became necessary to sell a few reverse councils in

order to support exchange would that, in your opinion, be conclusive proof that the rate of 1s. 6d. had not adjusted itself?—No, it would not.

14,718. Let me ask you would the amount affect the question? Whether it was one million or fifteen millions which was sold: would it matter?—The sale of several millions of reverse councils at that rate would not be to my mind definite evidence that prices had adjusted themselves at that rate, because my point is that this demand for reverse councils has arisen from a perfectly trifling change in the trade conditions of India—a change which is absolutely insignificant in comparison with such changes as we have had in the past and as we may have in the future, and which we ought to provide against in the future. Therefore the sale of even a certain number of millions of reverse councils would leave my opinion on that absolutely unaffected.

14,719. The very fact that the Government of India had to issue a notification, while the whole question of the ratio is being considered by this Commission, shows that the 1s. 6d. has not reached anywhere near the stage of stabilisation as far as can be judged?—That is my reading of it. Personally I must say that I noted the action of the Government with very great regret. I think it would have been a considerable help to those of us who are striving towards the great goal of stability if exchange had been left alone so that we could have had more definite experience as to how far prices had adjusted themselves to the current rate.

14,720. And what the natural ratio is under the present circumstances, unmanipulated and unaided by anything artificial?—That is exactly what we are in search of.

14,721. You were asked whether you would express any opinion as to the adequacy of the reserves at the disposal of the Government of India or not, and I understand you to say that that was a point on which you were unable to express an opinion?—I would qualify that to a certain extent by saying this. Our experience shows that under the great shock of 1907 and again in 1914 the amount of reverse councils wanted was very small, and only for a temporary period, which seemed to my mind very strong ground for believing that prices and business had adjusted themselves round about the then ratio; but if we are going to take a higher level of exchange, round which we are not satisfied that prices have adjusted themselves, the amount of the reverses at the command of Government might need to be very much larger than they were in those days.

14,722. I infer from what you have just said that in your opinion the higher the ratio the bigger the risk, and the larger would be the reserves required to maintain the ratio in case of anything adverse?—That would be my general conclusion.

14,723. You were told that if the rupee were stabilised now there would be no means left of mitigating a future shock to gold prices. In which direction would such a shock to prices be liable to mitigation by an adjustment of the ratio? Do you see the risk in a fall in gold prices, or a rise in gold prices?—In case of gold prices falling.

14,724. Therefore it is possible that those who recommend that no steps should be taken in regard to stabilisation at the moment apprehend that in case they recommend 1s. 6d. as the ratio it may be difficult to maintain 1s. 6d.?—That would be my conclusion.

14,725. In fact it would be an indication of diffidence in their recommendation of 1s. 6d.?—That is how I should construe it.

14,726. Hence they recommend waiting longer. You say in paragraph 2 that no disturbance of the permanent ratio for India should be allowed except on proof of overwhelming necessity. Will you tell us what, in your opinion, such an overwhelming necessity would be?—I should say proof of the impossibility of maintaining it at the long established standard.

14,727. That is, proof of the impossibility of bringing it up to the permanent rate in case there was a depreciation, or proof of the impossibility of preventing it from rising above that rate?—That is so.

14,728. I take it you have been in close touch with the operations of the Government of India since September, 1924, or thereabouts. Are you aware that 1s. 4d. gold has been exceeded owing to two or three circumstances; firstly, that gold was cut off from tender to the Government, and, secondly, the natural forces to which you refer, namely, very good monsoons during the last two or three years?—Yes.

14,729. Do you agree that these conditions would have played a very important part in the rupee going over 1s. 4d. and touching 1s. 6d.?—I think they have been the deciding factors.

14,730. Therefore those who maintain that 1s. 6d. would have been exceeded but for Government manipulation, overlook the fact that 1s. 6d. itself has been possible from 1s. 4d. because of Government manipulation?—I would not go quite so far as that. I do attach the very greatest weight to what I call the abnormal balance of trade, a continuance of which I think we have no right definitely to expect. That is what fills me with doubts and apprehensions at the present moment. I do attach very great importance to this remarkable balance of trade in favour of India arising from a continuance of good monsoons and an active demand for all our produce.

14,731. It has been suggested by some witnesses that as one of the factors in what you call the overwhelming necessity justifying a change from the ratio of 1s. 4d., the Commission should take into consideration the question of the cost of living and pertinent index numbers. Have you any views on that?—I should attach no great importance to the Indian index figures. That is not merely scepticism. I was Chairman of two Industrial Disputes Committees in Bombay, and we found that not a single person accepted the published Government prices. It seems to me that index numbers based on figures which nobody accepts may possibly be a little misleading. That is one thing. Secondly, I am not disposed to regard currency as an instrument to be fabricated and manipulated for the purpose of regulating prices. I think that is putting the cart before the horse. We have to consider our currency as it is, and prices and trade must adjust themselves to currency—and not currency adjust itself to prices and trade.

14,732. In fact it would be correct to infer from your evidence that the case for the change from the permanent ratio of 1s. 4d. has to be made out by those who recommend it, and not by those who wish to stick to the old ratio which has served us so well from the years to which you have referred—from 1899 to 1917?—That is my profound conviction.

14,733. You say in paragraph 4 that the gold standard reserve should be located in India and held chiefly in gold. When you say "chiefly," are you in a position to tell us approximately what your ideas are of the proportion?—If you ask my own personal opinion I should say that the whole of the gold standard reserve should be held in gold. I use the word "chiefly" as a sacrifice to those weaker brethren who boggle at that idea. I think the argument which is frequently used in connection with the gold standard reserve—that sterling securities are as good as gold—is absolutely untenable. In times of crises nothing is so good as gold, and I would prefer to see the whole of the gold standard actually held in gold.

14,734. May we take it that instead of "chiefly" you would say "wholly" in gold?—Yes, wholly in gold, but recognising that we have to deal with the situation as it is, and that we do not want any violent and drastic change the conversion should be arranged with prudence. But that should be the objective.

14,735. Regarding gold currency, I see that the Fowler Committee was greatly impressed by the evidence of Lord Rothschild, Sir John Lubbock, and others, to the effect that any system without a visible gold currency would be looked upon with distrust?—That is so.

14,736. In your opinion, any system without a visible gold currency would still be looked upon by the Indian public with distrust?—Undoubtedly; I think it would.

14,737. Therefore what you suggest is that the Commission should take a substantial step in that direction, leaving it to the people to adopt gold currency at their discretion whenever the reserves are adequate?—That is so.

14,738. You expect that when the gold reserves are located in India, and the people see that they are there, it is possible that the Legislature of the day may say, "We do not want to go in for this luxury"?—I think it is exceedingly probable.

14,739. (*Sir Reginald Mant.*) One of the reasons you gave for advocating a gold currency is that India is accustomed to a full value coin?—Yes.

14,740. It is a fact, is it not, that India has not had a full value coin for about 30 years?—Approximately, yes.

14,741. So that you can hardly say that in the present day they are accustomed to it. They have learned to do without it.—But would not it be equally true to say that as the rupee became (to use the word for the sake of argument) more and more a token coin, so has India turned more and more to the absorption of gold because the natural craving for full value could not be satisfied in the rupee; therefore they have taken to the one metal in which it could be satisfied.

14,742. That is a point. That is just what I was leading up to. Do you think that the rupee has become discredited by ceasing to be a full value coin?—I would not like to use so strong a term as "discredited," because I think the rupee as currency still functions as efficiently as ever it functioned in past history.

14,743. Let us put it: "has fallen into disfavour."—May I put it in this way? I say the rupee is less popular as a store of value, and that gold is now preferred for that purpose because the rupee has less than its full value.

14,744. Do you think that people are actually substituting gold in hoards for rupees?—Undoubtedly.

14,745. That process has been going on, and we have had some evidence about it.—I can give you a curious point to show how it arises. We had been away on leave, and my wife's ayah had been on half-pay. She had to have 90 rupees half-pay. It was in the days when the sovereign was current, and she said: "Please, memsahib, give me six sovereigns." "What do you want six sovereigns for?" She said: "I can get the six sovereigns made into a necklace, and I can turn them into money whenever I want to." I think that is typical of what was going on, and must still be going on in a large part of the country. That is where the gold imports are going.

14,746. That accounts for the very large imports of gold which have taken place lately?—I think so.

14,747. In connection with the 1s. 4d. ratio which you have described as the long-established ratio and which you regard as the right ratio, were you referring to 1s. 4d. sterling or 1s. 4d. gold?—15 rupees to the sovereign, 1s. 4d. gold. We put it in the other way; we would have called it 15 rupees to the sovereign.

14,748. You have said that when the disturbances of the War had adjusted themselves, the Indian exchange fell to approximately 1s. 4d. Do you still mean there 1s. 4d. gold?—I take it from the figures which are given me in Appendix A to the Chamber of Commerce's statement which shows the average exchange rates, bank selling, telegraph transfers by months, and so on, and it shows me the rupee fell to 1s. 3$\frac{31}{32}$d. in February, 1921, which was very soon after the cataclysm of February, 1920 had spent itself.

14,749. In February, 1921, according to the figures before me, the value of the rupee in gold was 1s. 1$\frac{1}{8}$d. —Then I think my figures must be sterling, after the Government had reverted to a sterling basis.

14,750. They are sterling?—Yes.

14,751. So that your long-established rate of 1s. 4d. gold was not achieved in 1921?—My long-established rate has nothing much to do with 1921. It has to do with 1898 to 1917. After that we enter on the period of disturbance.

14,752. I was dealing here with your remark that when the disturbances caused by the war adjusted themselves, the Indian exchange fell approximately to 1s. 4d. You are suggesting that that was the natural rate, and that it reverted to it when left alone. What I want to point out is that the fall did not stop at 1s. 4d. gold. It went far below 1s. 4d., and actually in June, 1921, the rate was 11d. and a fraction.—I take your figures, but the fact is that you are looking at gold figures and I am apparently, though there is nothing to show it, looking at sterling figures.

14,753. My point is that when you say it approximately fell to 1s. 4d., that was only in sterling and not in gold.—In sterling.

14,754. So that if you are regarding 1s. 4d. gold as the proper ratio that argument rather falls to the ground.—You mean that I pitch 1s. 4d. as being too high, and should take a lower figure?

14,755. Your argument is, as I understand it, that 1s. 4d. gold is the long-established rate, and the rate to which we ought to revert, and you say that when the War disturbances were over and the exchange was left to itself, it reverted to that rate?—Yes.

14,756. I am bringing to your notice that it did not do so. It fell down to under 1s. gold.—Well, I accept your correction. It was 1s. gold, 1s. 4d. sterling; but remember at that time, I think I am correct in saying, the Government of India had tried to link the rupee to sterling and not to gold. The Government of India, as a temporary expedient when they found the impossibility of maintaining the rupee at 2s. gold, tried the expedient of maintaining it at 2s. sterling, and the result was quotations came to be given in sterling instead of gold.

14,757. It did not rise to 1s. 4d. gold again until October, 1924.—Your figures must be correct. I only have sterling figures.

14,758. I just wanted to bring that to your notice. You remarked to Sir Purshotamdas Thakurdas that you would like to have seen the Government of India leave the exchange alone instead of offering to sell reverse Councils. Do you consider that the Government of India ought to have left it alone when it showed a tendency to rise last year?—No.

14,759. You consider that the Government of India should check the rise, but should not check the fall?—In that particular case, yes. As the Government of India were refusing through the legal fiction rupee to practice the natural corrective to a rising exchange, and that is to issue rupees in return for gold, I think they were justified; and I think their action was entirely beneficial in using their resources to prevent the rise of the rupee above 1s. 6d. gold, and I think that did the greatest service to the whole trade of India. My regret at the Government of India offering reverse Councils now is that it has deprived us of the opportunity of testing by practical experience whether the 1s. 6d. rate is the rate to which prices have adjusted themselves, or whether it is an inflated rate due to these artificial conditions. It is not so much a matter of principle as of practice. I think the experience we should have gained by the Government leaving the rupee alone, now quite apart from any academic principles would have been of the greatest possible value to everybody who was trying to find what are the realities of the currency situation to-day. It seems to me that information has been withheld

from us by the action of the Finance Member in this respect, even though it may be perfectly justifiable on other grounds. That is the main source of my regret.

14,760. If the Government left the rupee alone altogether it would have risen, possibly, to 1s. 8d.—So I am told.

14,761. And the slump now would not be to 1s. 4d., but possibly to 1s. 6d. If you had simply let it alone you would not have got it to the normal level, but you would have fluctuations. Your view, I understand, is that the Government ought to stop the fluctuations one way and not the other?—I do not say this as a matter of principle at all, but I do say that the information we should have gained as to the adjustment of prices and conditions round about 1s. 6d. by the Government leaving exchange alone, would have been of priceless value. It would have been practical experience against what is your opinion, my opinion, or anybody else's opinion, which is not entitled (certainly mine) to any value whatsoever. For that reason I do view with great regret the administrative action which has withheld that experience from everybody who is trying to get at the truth. No doubt you mean to say that because the Finance Member prevented its going above 1s. 6d. he was justified in preventing its going below 1s. 6d. That is one way of looking at it. I am looking at it solely from the point of view of the illuminative power of such fluctuation in the exchange as might have arisen.

14,762. May I put it in this way? If we had an automatic system of currency in force now under which the currency was increased or withdrawn according to the demands of the market, additional currency would have been supplied during the busy season for which the Government would have been paid in gold or sterling, and when the slack season began that currency would have been automatically withdrawn?—That is so.

14,763. In the absence of any machinery of that kind, would it not be generally upsetting to the market to let the surplus currency remain out?—I saw no signs of the market being upset by such weakness in the exchange as had occurred before I left. Your argument would be absolutely unchallengeable if 1s. 6d. was the established legal standard of monetary payments; but I think, quite apart from the other point of view which I have put, that the Finance Member must not be surprised if his action is construed into an attempt to anticipate the verdict of this Commission as to what the ratio should be. It may be quite unjust, but I think if anybody drew that conclusion they could not be excessively blamed for it.

14,764. With regard to the Government remittances, you have advocated limiting them to meeting the home charges. How would the balance required by India to adjust the balance of trade be remitted?—I think Mr. Preston could answer that question very much better than I could. I think Mr. Preston and his co-managers of the exchange banks would be perfectly prepared to take upon themselves the fullest responsibility for doing that. Of course, the theoretical answer is that it would be done by movements of bullion, but I look for something very much bigger than that. I hold the view, rightly or wrongly, that this practice of spoon-feeding the exchange banks has been demoralising to the exchange banks, and has been bad for the organisation of Indian credit. I think if the exchange banks instead of being able to sit down and draw their remittances at convenience on tap, by putting the cup under the tap and taking what they wanted, had been forced to consider ways and means of dealing with this remittance business, they might have gone much more actively into the Indian market for the development of Indian credit resources or, possibly, which was a point which was put before one of the earlier Commissions very strongly, encouraging the purchase of sterling securities or securities abroad. In all those ways the exchange banks could have been even more valuable to Indian finance and the development of Indian resources than they have been, quite apart from the exchange operations themselves. I can foresee—I may be slightly insane on this point—the very greatest advantages to the better organisation of Indian credit and Indian resources from throwing this obligation on the exchange banks instead of spoon-feeding them at both ends.

14,765. You would have to set up some machinery to enable them to get new currency in India if you limited the sale of Council bills or purchases of sterling. They would be forced to import bullion?—They would be forced to import bullion, or they might borrow, or they might do many things. There are enough brains behind the exchange banks, I think, for us to leave that for them to deal with in their own way, as they do in other countries of the world. I am not concerned actually with ways and means, because I have absolute confidence in the ability and resources of the exchange banks to manage this business with perfect ease. On the whole I do say that if you throw this obligation on them they will have to be very much more active in their development of Indian resources than they need to be now.

14,766. The point I am leading to, as perhaps I should explain, is this. You rather suggested that the Government by selling Council bills beyond their requirements caused stringency in the Indian money market?—I say it undoubtedly has.

14,767. What I want to discover is how the importation of gold which would presumably be taken by the Government Currency Department and locked up in the currency chest, notes or rupees being given out in exchange, would have a different effect from the effect produced by the sale of Council bills against currency?—Well, I am not an expert in these matters, and the answer I give may be untenable, and I would much rather Mr. Preston answered these questions; but it seems to me if you take gold and present it to the Currency Office and obtain currency for it—we will not say what form of currency—you are increasing the currency. You are not contracting it. If money is transferred from India, and lent out to the banks here, you are actually contracting your Indian resources. That is how it seems to me. I gave you the concrete point. When we were so desperately badly off for money in Bombay that the manager of one of the big Swadeshi banks did not dare to ask for a loan on his Government paper, it was put into Lord Morley's mouth to boast here of the transcendental services the India Office were rendering by lending £70,000,000 of Indian money in London. Later, the Governor of the Bank of England told the 1913 Commission that that money was a source of embarrassment to London as it was not commercial money. That is not a hypothetical case. That is a concrete case and it arose out of this practice.

14,768. But the sale of extra Council bills supplies extra money in India. It is a means of providing currency in India in the same way as the importation of bullion. It does not have the effect of contracting the currency in India, but of expanding it?—So far as it goes; but when it transfers the Indian Government's money to London, what is the effect then? What is the effect when it transfers to London Indian Government money which would normally be in the hands of the Imperial Bank and used as a basis for credit? It is quite true the exchange banks get currency in exchange for their Councils here; but when you are sending the Secretary of State's balances here up to £70,000,000, which was quoted on the occasion I have mentioned, what is the effect of that on the Indian market?

14,769. Now I begin to see what you are driving at. You are there referring to the transfer of the Government Treasury balances from India to

London?—Yes, by selling in excess of the Secretary of State's requirements.

14,770. Transferring them to London?—Transferring them to London.

14,771. You are not referring to the sale of Council bills or the purchase of sterling on behalf of the Currency Department?—Not against the Currency Department.

14,772. As a means of increasing the currency in India?—No.

14,773. Because I put it to you that that has precisely the same effect as the importation of gold?—Undoubtedy it has.

14,774. It has the effect, not of contracting currency in India, but of expanding it?—Undoubtedly.

14,775. (*Professor Coyajee.*) Might I submit to you one or two arguments which have been advanced on behalf of the 1s. 6d. ratio? It has been argued for several months—in fact, it was put forward even before the Commission was appointed—that there have been permanent and quite normal factors which have been affecting the balance of trade in India apart from those abnormal factors mentioned by you. For instance, the manufacturing powers of India have developed largely since the war, and consequently the imports of steel and piece goods, and such things, have increased, and also Protection has been introduced. In all those ways the balance of Indian trade must become more and more favourable as time goes on; and as the exchange must depend ultimately on that favourable balance it could be said, "Here is a case for an increased ratio above 1s. 4d. apart from the abnormal circumstances." Might I have your view on that argument?—I should be very loath, from my knowledge of India, to commit myself to that thesis, for this very good reason. It is quite true there has been a certain expansion of Indian manufacturing power, but it is equally true to say that there has been a considerable extension of Indian consumption of certain commodities which she used to export, like wheat. A great deal more Indian wheat is eaten in the country than used to be exported. That is one example. But, on general grounds, I think that the argument would fail, for this reason: that whatever the import trade is to-day, India is relatively a very low importer *per capita*. I think any increase in the resources of India from the development of manufacturing enterprise or irrigation is bound inevitably to lead to an increase in her *per capita* imports of various articles which she does not produce herself.

14,776. Might it not be objected to that, that the consumer has utilised already that favourable balance by importing more gold, which was the cheapest commodity relatively?—I thought you were looking to the future rather than to the present, but I look with very considerable confidence to every increase in the material resources of India leading to a larger import trade in those articles which she does not produce herself. I cannot conceive that this increased purchasing power will indefinitely be expressed in bullion.

14,777. Might I put forward another argument? The next argument which has been advanced is this. If the ratio of 1s. 6d. had been abnormally high then, it would have been a hindrance in the way of Indian trade, whereas both exports and imports have gone on increasing together. That shows that 1s. 6d. is not an abnormal or an unnatural ratio, but that it is perfectly consistent with a rapid increase of the trade of India. Might I have your view on that?—I think you will find the Chairman of the Spinners' Federation in Lancashire took a very different view from that, and I would rather accept his view than put forward any amateur view of my own.

14,778. (*Sir Henry Strakosch.*) With reference to the question of ratio, you say that the established legal standard should not be disturbed except in times of overwhelming necessity. Well, that happened during the War?—I would rather put it differently. I say that it was disturbed in the War, but whether it was absolutely necessary is a matter on which there is considerable difference of opinion which you will find argued at some length in the Minority Report of the Commission of 1919. I will not say I accept that view or not, but the extent of that necessity, or even the existence of that necessity, has been challenged on very strong authority.

14,779. But we are faced with the situation that the standard has been departed from?—Yes; but I would not like entirely to accept the corollary that it was in face of overwhelming necessity. It was departed from by an administrative Act, leaving the question of overwhelming necessity to be proved.

14,780. You would say that, apart from sentimental reasons, the old standard of value should be maintained, because there is built around that ratio a very great volume of contractual obligations?—Yes.

14,781. You would also say, if I understood you correctly, that the contractual obligations around 1s. 4d. are far greater than the contractual obligations around 1s. 6d.?—Presumably they were. I say presumably the contractual obligations built up in 30 years are probably greater than the contractual obligations built up in 12 months.

14,782. What have you in mind? Have you in mind long-term contractual obligations, or short-term obligations?—I have in mind borrowings of investment capital, remittances of capital, and all those masses of obligations—the large sums of capital, remitted from London to India and India to London which run into hundreds of millions, were all built up round a ratio of 1s. 4d. They were hundreds of millions, even if they did not run into thousands of millions. The actual amount is a matter of conjecture, of course.

14,783. Would you say that the long-term contractual obligations of a country like India are greater or smaller than the short-term contractual obligations?—I could not say, except that I think you might reasonably assume the long-term contractual obligations are between 1,000,000,000 and 1,500,000,000 sterling.

14,784. Some authorities consider that long-term contractual obligations form a very small part of the whole body of contractual obligations undertaken by a country, and that therefore what you have to consider mainly are the current short-term contractual obligations, because the country is affected mainly by them?—Well, I am not competent to express an opinion. My only basis on these figures, I think, is Sir Lionel Abraham's estimate that the amount of English capital invested in India is about £400,000,000. Between the time he estimated it and the present day it must have doubled in appreciation of values and other ways, so that there is a contractual obligation of £800,000,000. There are sterling borrowings here, and various other transactions; so that I think one would be within the mark if you say something in the nature of £1,500,000,000. On the other hand, your temporary contractual obligations are almost invariably covered by fixing your exchange. In countries where the exchanges have not fluctuated, that may not be so; but in a country like India where the exchange has fluctuated, every prudent man I think has covered his exchange very systematically, certainly since February, 1920.

14,785. Why do you look merely at the exchange position? Do not contractual obligations in respect of domestic transactions equally play an important part?—Of course they do. I am only speaking of the purchase of these goods as between producer and buyer.

14,786. The transactions in exchange are, of course, infinitesimal in comparison with the domestic transactions in goods and services?—Yes.

14,787. I saw some figures which indicate that the external trade of India bears the relation of something like 5 per cent. of the total trade of India?—I think the internal trade figures are 15 times the external trade.

14,788. Therefore if the ratio of 1s. 6d.—that is to say the purchasing power of the rupee at 1s. 6d.—has an effect upon internal prices, and if the short-term contracts internally are overwhelmingly greater than the long-term contracts, is that not an argument in favour of stabilising your currency where it will cause the least injustice in the light of the existing contractual obligations?—That is one way of looking at it, but from my point of view not the decisive one. I say you must not adjust your currency temporarily to the prices, but you must base your currency on the definite principles laid down by authority, accepted by Government, and practised over a long period of years. Prices will adjust themselves to your currency. It may be rank heresy to say so, but I think of all the dangerous expedients which were put before the currency authorities the most dangerous was that they should attempt to regulate internal prices by manipulation of the currency. My information, for what it is worth, is that this expedient was definitely and most emphatically rejected by the City of London, even though it was put forward under considerable authority.

14,789. If I understood you correctly, you do appreciate that a change in the present ratio, assuming internal prices have adjusted themselves to a 1s. 6d. ratio, would cause you grave disturbance?—It would cause very serious disturbance, undoubtedly.

14,790. So that the two things which have to be considered when deciding what ratio should be chosen is the question of justice or injustice to the debtor and creditor position and the disturbances that may be caused by a change in the level of prices?—Both those factors undoubtedly have to be weighed one against the other; and both of those, if I may come back to my original thesis, have to be weighed against the established legal standard of money payments, which was accepted by Government on behalf of the people of India, and for which, according to many authorities, they made considerable sacrifices; this standard obtained for nearly 20 years and has only recently been disturbed. I quite agree with all you say; I have a good deal to do with labour and other factors, and I view with some apprehension the effect on social conditions, in the widest sense of the term, of the re-adjustment of prices and wages and values which must come from a reversion to a 1s. 4d. rupee. I cannot share the opinion of those who brush them aside, or treat them light-heartedly. They give grounds for considerable anxiety, but my own belief is that that price is worth paying if through it we attain the stability we have in view.

14,791. Then as to the future management of the currency we have had it given in evidence by a great many authorities that there are distinct advantages in entrusting a true central bank with the management of the currency, first, because of the great virtue of the control of currency and credit in the hands of one authority; and secondly, the great virtue of amalgamating the currency and banking reserves of a country under the control of one authority. Do you agree with those views, or do you regard them as negligible?—May I be quite certain that I understand you. You look to the existence of three separate authorities: the Government as Government dealing in Government finance; a Central Bank which should be a bankers' bank dealing with currency and not going into general business; and thirdly, the Imperial Bank of India carrying on its present duties on its present lines. Am I to understand that to be the position?

14,792. No. Perhaps I might explain. Those who advocate a true Central Bank contemplate that that Central Bank should be the banker of the Government and the banker of the banks, and that it should have the sole right of note issue governed by a charter which would closely define the reserves requirements. Such a bank would have complete control of currency, and it would hold the currency and banking reserves. The combination of those factors is regarded by many authorities as of very great value in first of all directing the financial policy of the country, and secondly avoiding those wide fluctuations in the price of credit which was such a hindrance in India to trade and commerce until comparatively recently.—Will you tell me where the Imperial Bank would come into this system, and then I can give you my answer.

14,793. The Imperial Bank would not be regarded by these authorities as a true Central Bank. The Imperial Bank is really a Commercial Bank. The Imperial Bank would remain there to do the ordinary commercial business, being possibly freed from certain of the restrictions imposed upon it by its present charter, and so given greater freedom in its transactions. Then next to it, there is to be set up a true Central Bank, as I said, as the holder of Government balances, the banker of the banks and the manager of the currency.—Everybody would agree to the principle of that as a most valuable element in the financial organisation of a modern State, and particularly of a great Federal State, as India is. On the other hand, if we come to apply the ideal to Indian conditions we shall find we have to pare it away a little, owing to local circumstances. For instance, take the note issue. Unless this bank was going to manage the note issue as agent of the Government of India and no more, all the objections advanced against a transfer of the note issue from the Government of India to the Imperial Bank would be immensely reinforced by a new note from a new bank which nobody knew. The Government they know. The Imperial Bank they know. A new bank of issue nobody knows; nobody knows anything about it. That would be one point. The other point would be this: How in such circumstances would the Imperial Bank be able to discharge the greatest duty it has to perform at the present time, and that is to nourish and to develop and dry-nurse the internal credit of India? One of the greatest steps we have taken of recent years has been the obligation on the Imperial Bank of opening 100 new branches. One hundred new branches are a drop in the ocean. When the Imperial Bank have opened 5,000 new branches, then they may consider that they have made some substantial step towards the proper organisation of Indian credit. None of these branches can pay for years. How is the Imperial Bank to carry this baby, if it is to be deprived of the advantage of a free use of the Government balances? To my mind, a great point, which the present Finance Member in India has developed with much ability, is this. The transcendental work in India is the development of her internal credit resources, so as to coax these hoards out of their unproductive use into fructification in commerce and industry, and to encourage their investment. The Imperial Bank is the only Bank that can do that. The Indian indigenous banks have practically done nothing; they cling to the great towns. The Exchange Banks have done practically nothing; it has not been their business. Unless the Imperial Bank is not only left free to do this work but is provided with the resources with which to do this work, we shall set back the hands of the clock for a generation.

14,794. May I ask: If there were a Central Bank in charge of the note issue which was in a position to extend credit facilities to the other Commercial Banks, including the Imperial Bank, by re-discounting, would not that be a great asset to the country in fostering the development of banking?—It would be a great asset in fostering the development of banking in centres where the Bank is now established; but that is nothing. That is a mere trifle. It is mere thistledown falling on the way. The real big business is the extension of banking facilities all over the country, not confining them even to district headquarters. As a matter of fact, each district ought to have a dozen branch Banks. I am not talking in the air; because when I was connected with the Central Co-operative Credit Bank of Bombay we found the district was much too large a unit if we are going to come down to the

real organisation of Indian credit. If I live 25 years I look to see the stage when the Imperial Bank will have 5,000 branches throughout the country. It will take years before those branches pay. The Bank must be provided with substantial resources to enable it to carry out this work. The provision of money on loan through re-discounting its bills to my mind will not be sufficient. I do not see how the Imperial Bank can do that work unless it has the large resources which will come from the free use of the Government balances.

14,795 Do you think it is a safe thing for a bank to divert its resources all over the country and at the same time be the banker of the banks that holds the reserves of the other banks? You want to combine the two ideals. You want to see the banks and the Government depositing with the Imperial Bank their cash resources just as the Joint Stock Banks deposit their cash at the Bank of England, and at the same time you wish to see that bank going in for what must be termed highly speculative business, namely the opening of branches all over the country which you yourself say are a dead weight on the bank. Do you think that is sound?—I do not call it a highly speculative business at all. I do regard it as an expensive business; but highly speculative, no. I will just give you one concrete instance to show that it is not highly speculative. I was for over 15 years a fairly active director of the Co-operative Central Bank of Bombay which was financing the agricultural co-operative credit societies. Most of that work was done in Bombay Deccan, which is the most famine-susceptible part of India. When I left the bank we had never made one anna of bad debt—not one anna of a bad debt. Though I quite agree with you it is an expensive business, I am sorry to say I do not find myself in a position to accept the corollary that it is a speculative business. I do not.

14,796. But the bank would dissipate its resources to those places. If it opens those branches it has to keep its cash balances there, and therefore it has to dissipate its resources all over the country in order to carry on its business in those numerous branches. How then could the bank always be in the position to meet its obligations in the big centres where it is the banker of the banks?—Sir Norcot Warren will correct me if I am wrong, but my opinion is that in opening these branches you do not dissipate your resources, but you add to your resources because a very large number of these branches are for all practical purposes deposit collecting agencies, and you add enormously to your resources by the bank's obtaining very large sums which are now lying inert or tucked away. If Sir Norcot Warren could say what had been the effect of the 100 branches opened in increasing the deposits, I think that would be much more valuable than any opinion of my own.

14,797. Then it is a profitable business to open branches? Why should you then say that if otherwise a Central bank is desirable the country should not have a Central Bank?—I think you are going a little further than I should like to go when you say it is profitable. Profitable is a matter of profit and loss. New branches undoubtedly bring you in deposits which bring you in revenue; but whether for many years the revenue derived from those deposits bears the whole cost of the branches is another matter. There I think Sir Norcot would tell you these branches do not pay for many years after establishment. But quite apart from that, accepting entirely in principle your argument, I do see great difficulties in inspiring immediate confidence in a brand new bank which is to have entire charge of the note issue, and is presumably to put its name on the notes.

14,798. If they were guaranteed by the Government, would that make any difference to your view?—No; you must have, for years to come, in India, the name of the Government as a Government, on the note. Men like Sir Maneckji Dadabhoy and others here know more about this than I do, and perhaps I attach excessive weight to it; but it seems to me you are running a very great risk if you are going to take the name of the Government off a note which has only in comparatively recent times staggered into wide popularity.

14,799. (*Sir Maneckji Dadabhoy.*) You do not attach great importance to internal prices, I understand?—I do attach a great deal of importance to them, but I attach still more importance to the desirability of getting our currency and exchange policy definitely settled.

14,800. In other words, in your opinion the dislocation of prices is a small matter as compared with the dislocation of currency?—Dislocation of prices is a lesser matter.

14,801. The result will be that the prices will adjust themselves to currency. First fix your currency and then the prices adjust themselves to currency?—That is so.

14,802. Those are the principles which you advocate, if I understand you correctly?—Yes.

14,803. Is this in conformity with understood canons of finance as accepted at present?—I am not a currency expert or a theoretical authority, and I could not answer that question.

14,804. As regards ratio, I am not quite clear what your view is. Am I to gather from your evidence that you do think that this is the psychological moment for the stabilisation of the exchange, or that we should wait for some time to settle our ratio, as advised by some of the witnesses?—I would not go quite so far as to say that this is the psychological moment because I think we are living to-day, to a certain extent, in artificial conditions. I should prefer to unpeg the exchange downwards and see what would happen in, possibly, a year. What I do feel is that when every country in the world is taking great steps to stabilise its currency, even some insolvent countries are making sacrifices for that purpose, for a great solvent country like India to boggle at the difficulty is quite unworthy of us, and that we have to take our courage in both hands and, although the moment may not in itself be ideal, get rid of all these disturbing expedients and administrative measures and make a concerted effort to get our currency on a perfectly stable automatic basis.

14,805. In other words, you would stabilise even at the risk of making another mistake?—No; I would not. I would not stabilise if I thought I was making a mistake; but if my principle, which I ventured to put forward, is right, namely, that the main factor to be guided by is the established standard of monetary payments, I say you cannot make a mistake.

14,806. Supposing we come to the conclusion that the period of 18 months during which the ratio has been kept up to 1s. 6d., namely, from October, 1924, up to date, is not enough, and that this ratio should be kept up for a further definite period, would you in that case recommend the fixation of a provisional rate for the time being?—I think there should be the corollary to that, if I understand you correctly, that you should unpeg the exchange downwards, certainly to the point of 1s. 4d. gold. For that there would be a great deal to be said. but, on the other hand, I am rather oppressed by this incessant flow, and the effect on India of this incessant flow, of gold bullion which does not function, and cannot function until a change in our currency system is made enabling it to function, as currency. I think we are dissipating the resources which we want for a multitude of other purposes, and that weighs very much with me against temporary inconveniences.

14,807. Then, as regards the ratio, I understand that you whole-heartedly accept the recommendation of the Fowler Committee?—Undoubtedly.

14,808. And you think that was the sheet anchor of the financial policy of the Government of India?—I do.

14,809. And but for the undue interference of disturbances in 1920 the rate would probably have gone

down to the established rate of 1s. 4d. Is that your conclusion?—That is my conclusion.

14,810. In other words, the ratio of 1s. 6d. is an artificial ratio brought on by five successive bumper harvests, starvation of imports, and the want of a working ratio?—I think so.

14,811. In that case, the *de jure* standard of 2s. never having come into operation at all, the choice lies between the *de facto* ratio of 1s. 6d. and the legally established ratio of 1s. 4d.?—That is my view. I can see nothing to be said for any half-way house between those two.

14,812. You see no half-way house?—I see none.

14,813. The choice lies between the *de facto* ratio and the legally established ratio?—That is my view. I think there is something to be said for the *de facto* ratio, and a great deal to be said for the old-established ratio, but there is nothing to be said for a new ratio.

14,814. Then you attach great sanctity to the continuance of a figure for the period of 10 and 20 years, and also the existence of the ratio at a particular figure?—Yes; I do feel very strongly if you take that away there is nothing left. There is absolutely no Pole Star in Indian currency whatsoever. If you make it 1s. 6d. to-day, there is no reason why you should not make it 1s. 8d. next year and 1s. 4d. the year after. I do not suppose there is any special magnetism attaching to 4·8666 to the dollar, but still enormous sacrifices have been made to maintain it.

14,815. What I understand is this. There is no special virtue in adopting any particular ratio at present, but if a ratio has to be adopted, whether it be 1s. 8d., or 1s. 6d., or 1s. 7d., or 1s. 5d., or 1s. 4d., the balance of advantage lies in going by that ratio which has been kept up for years together? —That is my view.

14,816. That is the balance of advantage?—That is my view.

14,817. There is no particular magic in any particular ratio which may have been fixed?—No; once our prices have adjusted themselves to it.

14,818. With regard to your recommendation as to the gold standard I would like to ask you a couple of questions. You said you recommend a gold standard for the present, and gold currency ultimately?—Yes.

14,819. What methods would you employ during the interregnum for the introduction and dissemination of some sort of gold currency?—That is rather more of an expert question than I feel competent to answer. I can only give you the rather crude ideas at the back of my mind. We have authority for saying that the Government is in a position today to give on demand in India gold in quantity, we will say, of 400 oz. If that is done we shall have made as substantial an advance towards the gold standard as has at the present time been made in England. If our assumptions are correct there will be a steady inflow of gold into the paper currency reserve such as there was after 1898. As a matter of fact, the only reason for the adoption of administrative variants from the 1898 policy was that there was too much gold. That is neither here nor there. If the Committee would lay down a figure as to the proportion of gold in the paper currency reserve which would justify the undertaking to give gold coins on demand, when the gold in reserve reached that figure—or that proportion of the total circulation—then the Government should issue a gold coin on demand. That is what I have at the back of my mind; but it is a much more technical question than I really feel qualified to answer.

14,820. Would you not, in the meantime, give the Government an optional obligation to give the sovereign for rupees, as was done before the War?—I would certainly give them that option.

14,821. You would give them that option?—Yes You mention the sovereign. The sovereign has been a benefactor and it has been a nightmare to India. The difficulties which have arisen out of minting the sovereign in India have broken everybody's heart. I think it is a question to consider whether the Indian coin should not be a gold mohur of the same weight and fineness as the sovereign so as to get rid of the interminable discussions with the Treasury (the Treasury are quite right from their point of view) over the establishment of a branch of the gold Mint in Bombay. But that is a minor matter.

14,822. In the scheme you recommend you would not put any limitation on the rupee circulation?—Well, I do not really know enough to answer that question. There is a weight of authority which says if you are going to build up a true gold currency you must contract, or you must put a limit on, your rupee currency. Whether that is inevitable or not, I do not know. Personally, I should be very loath to see—at any rate, for a great many years ahead—any artificial restriction on the additions demanded, if demanded, to the rupee currency.

14,823. Would you also give India the benefit of the establishment of a Mint for free coinage of the sovereign or any gold coin that we might fix?—Undoubtedly and forthwith, even if it is run at a dead loss.

14,824. That would be a great help in the dislodgment of the gold hoards?—I think it would be bound to be an influence in bringing the gold hoards into circulation.

14,825. This dislodgment of gold will, in a great measure, affect the purchase of fresh gold from foreign countries?—It is bound to influence it very materially, I think.

14,826. Do not you think that the present large hoards of gold and bullion in the country, in a sense, are really a serious danger to India which would be obviated by the circulation of gold coinage?—I do not think that I would be prepared to say that it was a serious danger, though I would accept that view if it was put forward with any authority. What irks me is the loss of the Indian resources which we are so desperately anxious to expand.

14,827. What effect has it on the value of gold?—I take it it must cheapen it. Do you mean the international market, or in India?

14,828. In India. I am not referring to the international market.—That is a question really rather beyond me, and I would prefer that you should put it to somebody who had made a closer study of it.

14,829. (*Sir Alexander Murray.*) You have answered so many questions on the ratio that I must apologise for asking you one or two more; but, incidentally, in your evidence you have given as one of the reasons for thinking that 1s. 6d. is not a suitable ratio the fact that, during what you call the recent temporary lull in the export trade, or change in trade conditions in India, the rate has dropped below 1s. 6d. I think you said when you left Bombay on the 27th March it was round about 1s. 6d. I wish to read to you a report that has come in by this mail from one of the leading firms of exchange brokers in Bombay giving reasons, as they state them, for the rate falling below 1s. 6d. This report is dated the 31st March: "This morning an announcement in the paper that the Currency Commission's report is probably to be published at the end of April or early in May precipitated matters. The Bazaar speculators and bullion dealers having already made up their minds that the Commission must recommend a 1s. 4d. rupee, evidently decided that a month or so was a very short time in which to buy their requirements, they being already heavily over-bought, started hammering the market soon after the opening. A speculative foreign bank, quick to seize the opportunity, and obviously anxious to bear the market when it was morally certain that no one was going to sell anything at any price, sent out the most fantastic buying orders, which added to the confusion, and we closed with all rates quite nominal"?—These curious raids by foreign banks, and particularly by a foreign bank, are not an unknown factor in our market. They are always

occurring. But, as a matter of common sense, what was done by every intelligent man? When I went to Bombay last November I said to all the concerns with whose finance I was connected: "Exchange cannot go above 1s. 6d. If there is any movement it must be downward. Cover your exchange as far ahead as you can," and we covered our exchange for about 18 months.

14,830. You also said, in reply to Sir Reginald Mant, that it was a pity that the Government's intervention by the offer of the sale of Reverse Councils has prevented our getting information as to where the exchange might actually go to if it were left alone. That is the case, is not it?—Yes.

14,831. I think you have expressed the opinion, too, that the Government were right in not letting the exchange go above 1s. 6d.?—Yes.

14,832. And as you were saying just now, you advised all your friends in Bombay that the exchange could not go above 1s. 6d., but might go lower than 1s. 6d., and therefore they should cover their exchange. If you were in Bombay advising the Government in those circumstances, and you found the bears and other people putting out misleading statements on the market, encouraged by the fact, as you yourself say was the fact, that you had a top rate and not a bottom rate, do not you think you would have advised the Government, in the circumstances, with the Commission sitting, that having put a top limit on the rate it would be well to clear the market and put a bottom limit on the rate until such time as the Commission reported, in order to choke off bears and other people who disturb markets?—The only way of dealing with your bear is to let him burn his fingers, and let him burn his fingers badly. I am dead against administrative measures to prevent bears or bulls from burning their fingers right hard, because that is the only way they will learn. I quite understand that in theory there is a good deal to be said for your point of view, that the Finance Member having prevented the exchange from going up, was justified in saying: "I will prevent it from going down." I accept that entirely. But I say, as a matter of practice and for information, I am sorry he did it because if the fall was an artificial one it would very soon have spent itself. It could not last more than a few weeks. If, on the other hand, the fall is a natural one, I think the information that it would have brought us would have been of very great value.

14,833. (*Mr. Preston.*) I am a dutiful schoolboy and I respect the tutor, but before you cane me let state my case. Arising out of the questions which Sir Alexander Murray has just put to you, and which Sir Reginald Mant put to you, with regard to the effort which has been made by the Finance Member to prevent the exchange from rising beyond 1s. 6d., may I ask if instead of an obsolete ratio of 2s. or Rs.10 to £1, there had been a ratio of Rs.13-3-4—and if as one of the unfortunate Exchange Bankers of which you spoke I had said: "I will ship gold to India and get R.13-3-4 for my sovereign"—would the exchange ever have gone over 1s. 6d.?—Never.

14,834. (*Chairman.*) Is there any point to which you would like to return, by way of amplification?—I have nothing more to say.

14,835. (*Chairman.*) We are very much obliged to you for your very full assistance this morning.

(*The witness withdrew.*)

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## FORTY-SIXTH DAY.

## Friday, 23rd April, 1926.

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PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER. } (*Secretaries.*)
Mr. A. AYANGAR. }

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THE RIGHT HON. MONTAGU NORMAN, P.C., D.S.O., (Governor of the Bank of England), and SIR CHARLES ADDIS, K.C.M.G., re-called and further examined.

14,836. (*Chairman.*) Mr. Governor, you have been good enough to answer some general and leading questions which I put to you on the last occasion on the matter of a Central Bank for India. I am now going to ask you to be good enough to deal with any supplementary questions which my colleagues may have to put to you on that topic.

14,837. (*Sir Maneckji Dadabhoy.*) Mr. Governor, you have very aptly described the functions and ideals of the new Central Bank: I refer to that part of your evidence which you gave in reply to the Chairman's questions. You state: "For instance, it should have the sole right of note issue; it should be the channel, and the sole channel, for the output and intake of legal tender—currency. It should be the holder of all the Government balances; the holder of all the reserves of the other banks and branches of banks in the country. It should be the agent, so to speak, through which the financial operations at home and abroad of the Government would be performed. It would further be the duty of a central bank to effect, so far as it could, suitable contraction and suitable expansion, in addition to aiming generally at stability, and to maintain that stability within as well as without. When necessary it would be the ultimate source from which emer-

gency credit might be obtained in the form of rediscounting of approved bills, or advances on approved short securitics, or Government paper. That in a nutshell is my answer.'' Do not you think that, as the Imperial Bank is constituted at present, it is possible to accomplish all these ideals which you have suggested by a modification of the present Statute?—I should think it would be possible.

14,838. And you would give these powers to the Imperial Bank if there should be any difficulty in the constitution of a central bank?—I say it would be *possible* to do so.

14,839. (*Chairman.*) Is there some reservation in your mind, Mr. Governor?—I am answering the question as it was put to me. I think it would be most undesirable, and a great loss to India, and a great drawback to the advancement of banking in India if it were to he done in that way.

14,840. (*Sir Maneckji Dadabhoy.*) I will come to that point, Mr. Governor. You have anticipated me. Then, in answer to the Chairman, you stated this with regard to the constitution of the new bank: "I should, therefore, like you to consider whether your end would not be met (and the end of the proprietors of the Imperial Bank, who deserve to be considered) if the Imperial Bank were to renounce its special privileges, and to receive freedom from its special restrictions, and a new bank were to be set up to acquire those special privileges and to perform the other functions which I have enumerated to you; the new bank to obtain its capital from the existing proprietors of the Imperial Bank, who would thereby be left where they are to-day." Is that practical politics? Could you ask the Imperial Bank, constituted as it is, with its body of shareholders, to abandou the privileges which it obtained in consideration of having floated one hundred new banks during the last five years and of having expanded its operations in various directions and of having laid out a scheme? Is it now within the range of practical politics for this Commission to make a recommendation to the present shareholders of the Imperial Bank to renounce all those privileges, and also to ask them to find capital for another bank which is going practically to be a serious rival to them and to take away a lot of their business?—Will you kindly repeat your question?

14,841. My question is this. Is it within the range of practical politics for us to ask the Imperial Bank to forgo all these privileges and concessions which they have acquired, and be content with a bank on a very small unambitious scale, and also to ask the shareholders to find capital for a new Bank which is going to be a very formidable rival to the existing bank?—Yes, it is practical politics.

14,842. Are you also of opinion that it is a reasonable proposition? Let me put it in another way: Would not it be a breach of faith with the existing shareholders who have acquired a ten years' agreement from Government, considering the Treasury balances which were placed with them in order that they should extend their operations and go in for a larger scheme? Would it not be an act of breach of faith with these people?—I do not think it would be a breach of faith with them. I think that what they would lose on the swings they would gain on the roundabouts. I endeavoured in what I said on the last occasion.

14,843. I have carefully studied your answer.—I have not studied it, but I did endeavour to safeguard the rights of the proprietors in such matters as you have mentioned; and I think it should not be difficult to do so.

14,844. You are aware that if we exclude the exchange banks in India, whose operations are mainly of a different character, we have not more than really half a dozen banks in India. Even if a central bank was constituted on the lines you suggest, would not its financial success be very problematical, and its successful working a matter of grave doubt?—I think not.

14,845. You do not think so?—No.

14,846. You think we could undertake this big scheme even with half a dozen private banks in India?—Which big scheme?

14,847. The formation of a new central bank?—Certainly, in my opinion.

14,848. The advantage would, you think, preponderate in favour of such a bank as against the improvement of the constitution of the existing Imperial Bank of India?—I think the great balance of advantage is in favour of the two institutions. May I make a general remark? I did not mean necessarily to attach the name "Imperial" to the new bank, so to speak, or to the old one. I was not insistent that that particular name should be attached to either the central bank or to the other bank. I am not arguing about the name in any way.

14,849. But you say the advantage would preponderate in favour of such a bank as against an improved Imperial Bank of India?—Yes, but irrespective of the name. I am not talking about the name at all. The mere name "Imperial" is not what I am thinking about, and you are not either, I think?

14,850. No.—You are thinking about the functions?

14,851. Yes.—I think, if I may continue, that very likely it would be wise to adhere to the name "Imperial" for the central bank, and to find a new name for the Commercial Bank. It might be quite wise to do it in that way.

14,852. If the present shareholders of the Imperial Bank of India refuse to find the capital for the new central bank, what is your recommendation in that case: how is the capital to be found?—I cannot believe that they would refuse, and I should only consider how to find it after they had refused, because I have never known of any insurmountable difficulty in the finding of capital for a central bank.

14,853. (*Sir Maneckji Dadabhoy.*) You may take it from me, Mr. Governor. I have been one of the Governors of the Imperial Bank of India for the last five years. I also have an intimate knowledge of the commercial activities of the people of India, and I am deeply interested in many banks; and I can tell you from my personal knowledge that I feel very strongly that if a proposition like this is placed before the existing shareholders of the Imperial Bank of India to cut down their privileges and make the present Bank simply a nonentity and start a rival bank, they will not give the capital. That is my honest and firm conviction, and I think my friend, Sir Purshotamdas Thakurdas, who also knows a good deal about Banks in India, will very probably agree.

14,854. (*Chairman.*) We must not enter into a discussion about this.

14,855. (*Sir Maneckji Dadabhoy.*) Do you still think that the scheme will be feasible, and that they will find the capital?—My answer to that would be this. I am not going to deprive the proprietors of anything. I am going to give them the whole, and possibly more than they have to-day, but I am going to give it to them in two packets instead of in one. As to whether or not they will find the capital for the new bank, that is primarily a question of the terms on which it is offered to them.

14,856. But you will admit that the shares of the present Bank will fall considerably and their profits will considerably diminish?—I do not know enough to admit that. I can conceive it as possible, but I am quite sure, if you will allow me to say so, that it can be done in such a manner that it will inflict no hardship on the proprietors and that the proprietors will in fact be willing to find the capital that is needed.

14,857. In case this capital is not forthcoming from the proprietors of the Imperial Bank when this scheme is placed before them, what is your recom-

mendation then? What would you suggest if the Bank is to be started? Where are you going to get the capital from—from the Government or whom?—From the present proprietors.

14,858. But if they refuse?—I should give that question no consideration until they have refused.

14,859. Would not that jeopardise the position of the present Imperial Bank of India?—I do not think so at all.

14,860. It would not jeopardise it in any way, do you say?—I do not see that it would.

14,861. With reference to the new bank which you have recommended, you have stated that on the governing body you would not have members of the Government, you would not have members of the Legislatures, and that you would also exclude politicians, bankers and officials. I can quite understand the exclusion of members of Government to a certain extent, and also the exclusion of politicians; but if you exclude bankers, will you tell me how you will supply the technical knowledge which is necessary for the good government of a bank?—First of all, so many officials as you may decide possessing technical knowledge. There are many individuals who are not bankers, in the sense in which that word is generally used, who have a very considerable technical knowledge of banking I would venture to say. I think you would have no difficulty from that point of view.

14,862. You say we would have to fall back upon the technical knowledge of the officials of the Bank?—Not "fall back." There would be no falling back.

14,863. Would a governing body exclusive of these men which you suggest be competent to deal with grave financial and banking questions?—In my opinion it would be fully competent to do so, and it would be supported by a body of officials which would be of great assistance to it.

14,864. You recommend that business men from commercial communities should be put on this Bank?—I do.

14,865. Are you aware that in India many of the men in the front rank of business, both Europeans and Indians, are also members of the Legislatures, and are politicians to a more or less extent?—I am not aware of the degree to which that applies.

14,866. If I put it to you that leading commercial business men are also members of the Assembly and are connected with politics to a certain extent, would you reconsider your decision in that case?—No.

14,867. On the last occasion the Chairman asked you: "It has been suggested by one witness that the Government should have an effective voice in reference to the highest financial policy of the Bank, and, further, that the provisions of the present Imperial Bank of India Act should be retained whereunder the Governor-General in Council is entitled to issue instructions to the Bank in respect of any matter vitally affecting the policy of the Government, or the safety of Government balances, and to confer upon the representatives of the Government of India on the Board of the Bank a right of a suspensory veto in regard to any action considered to be prejudicial to Government's interest under these headings. Taking those two powers referred to—the power to issue instructions and the right of suspensory veto—do you regard the maintenance of such powers of control as that as desirable?" Your reply was in the negative. You said: "No; I intended to have dealt with this question a few moments ago." I would draw your attention to this, and I will put the proposition to you in connection with a concrete fact. In the present conditions of India, if the notes are to be issued in the name of Government only, and a bank is to be constituted as the Central Bank, which would have the management of the note issue, how would it be possible to deprive Government of an effective voice in the financial policy of the Bank?—I was not aware that the notes were to be issued in the name of the Government, although it may be so; but, in any case, the Government hands over to the Bank, directed as it will be by a responsible body of persons, the whole of its financial operations under the terms of the Bank's Charter. Having done that it leaves the Bank, and that body of responsible persons, to conduct the operations. I see no reason to go beyond that.

14,868. I am not quite clear about it. I will put it in this way. If we decide that a new Bank shall be constituted—either a revised and improved Imperial Bank of India or a Central Bank in the sense you have indicated—and we then find it would not be safe in the interests of India that the power of issuing Notes should be delegated to that Bank, or that the Bank should issue the Notes in its own name because it would cause a want of confidence and panic among the people, then would it not be necessary for some measure of Government control to be maintained over the financial policy of the Bank?—In my opinion, no.

14,869. You would not even give the Government representatives on the Bank a power of suspensory veto?—No.

14,870. You would not even give that?—I should not.

14,871. If the Government finds that the large Treasury balances which are at the Bank have not been very judiciously utilised, and the Bank is even going wrong, and it might cause some difficulty in the way of Government when they require the balances, even then you would not have any Government supervision?—I should make no provision for such a hypothetical condition.

14,872. In formulating your scheme for the Central Bank and its powers, you have in mind western conditions and the principles of banking in England rather than special Indian conditions, have you not?—Not only England, I think.

14,873. No; I mean western countries?—It is perfectly true that I am not as familiar with the conditions in India as I should like to be, but I have based my suggestions to you on a much wider field than England or even Europe.

14,874. (*Sir Maneckji Dadabhoy.*) I would next draw your attention to your evidence commencing with paragraph 14,610. You suggest that the note of the Imperial Bank should bear the guarantee of Government.

14,875. (*Chairman.*) No, the Governor did not suggest that. I put a question to the Governor and he said "If the Commission are of opinion that the note of the Central Bank would be well received and pass freely current without any mention or provision of Government guarantee, I should greatly prefer such a note."

14,876. (*Sir Maneckji Dadabhoy.*) That is the alternative. Reading the whole of the Governor's statement, the impression left on my mind is that he thinks it might be obviated by a sort of guarantee given by the Government.

14,877. (*Chairman.*) From what answer do you derive that?

14,878. (*Sir Maneckji Dadabhoy.*) It is quite clear to me that the Governor is of opinion that he does not recommend a Government guarantee.

14,879. (*Chairman.*) No. What he says is "or whether that note should not be stated to be an obligation of the Government, or be guaranteed by the Government. This is a question of Indian mentality on which I have no information." So he does not express any opinion for or against, except in question No. 14,613.

14,880. (*Sir Maneckji Dadabhoy.*) The question was "You would rely upon that co-ordinated relation between the Central Bank and the Government to which you have already referred," and the answer was, "Yes, because obviously the Central Bank will be required to observe certain rules laid down in its charter, and so forth, as Sir Charles reminds me.

It is not altogether a free lance. It would be required to hold certain reserves and to observe certain statutory provisions. I cannot see that the Government of India should not be as willing to trust the note of the Bank as to trust the Bank as a holder of the Government's balances, which it would be as an essential part of the plan." Mr. Governor, do you put these two cases on the same plane? The Imperial Bank have a discretion in the matter and they use that discretion. The other question is the want of confidence. It might imperil the Government altogether if people have no confidence in the bank note. You do not mean to put these things exactly on the same plane?—I say they are similar considerations, but not the same considerations.

14,881. I understood from your evidence that as regards the question of compensation to the Government for handing over the right of note issue, in the first instance you were not disposed to give any compensation to the Government, but later on you revised your opinion, saying that the profits over a certain minimum might be distributed between the Government and the shareholders. Is that the only scheme of compensation which you have in view about the distribution of profits?—About a certain proportion being allocated to the Government as the only method by which they would receive compensation?

14,882. Yes?—Yes, it is.

14,883. May I know what is done in England? With regard to the bank notes which are issued by the Bank of England, does the Government get any consideration for having given that power to the Bank of England?—The main consideration here is that the Government has a large loan dating from a couple of hundred years ago at a nominal rate of interest. That was an important factor in the origin of the Banks privilege of note issue.

14,884. (*Chairman.*) Could it be said that the Government receives services from the Bank without payment?—No.

14,885. (*Sir Maneckji Dadabhoy.*) In paragraph 14,634, in answer to the Chairman, you stated this. The question put was "I may perhaps later on ask you a question about silver, supplementary to this. First of all you say that you would fix the minimum percentage of gold and gold securities at 40 per cent. Can you define at all the proportion of that minimum of 40 per cent. which would be held in gold?—Well, I said mainly gold, and I should propose that by degrees the whole 40 per cent. should come to consist of gold." Your idea, then, is ultimately to stop all investments in gold securities?—I will not go as far as that.

14,886. Why do you say "I said mainly gold?" What is your reason for saying "mainly gold"?—I think I said somewhere that if the minimum were fixed at 40 per cent., it would require that the Bank should hold on an average 60 per cent.

14,887. (*Chairman.*) You say "That being the minimum figure, the normal figure would necessarily be considerably higher"?—I think it would not be unfair to aim, over a long series of years, at having your minimum in gold, and your margin, as it were, in securities. I attach no great importance to that, but it appeals to me.

14,888. (*Sir Maneckji Dadabhoy.*) I see your point. You also stated in answer to the Chairman that a Bank should buy and sell gold exchanges but not gold. Why not gold? Will you kindly amplify that?

14,889. (*Chairman.*) We are now getting off the question of a Central Bank. I was hopeful that we should not return to the old questions about the standard.

14,890. (*Sir Maneckji Dadabhoy.*) I do not quite grasp your reasons for saying that the Bank should only buy and sell gold exchanges and not gold?—That, I think, is the question which we have dealt with, or which I have tried to deal with, on the two or three earlier occasions when I was here. The question of buying and selling gold is implicit, and indeed explicit, in the scheme which was put before me as a witness, and to which I have devoted some hours of time here. It was for that reason that I here advocated that gold be not bought and sold. It is part of the currency question. It is not a banking question as it seems to me.

14,891. Then I will look at the reasons you have given previously in connection with your answers on the gold standard?—Yes.

14,892. (*Sir Alexander Murray.*) In answer to Sir Maneckji Dadabhoy you indicated that while it might be possible to modify the constitution of the Imperial Bank of India, it is not desirable to do so. In your opinion it would be to the advantage both of the people of India and of the Imperial Bank that two separate concerns should be created by the shareholders of the Imperial Bank. It is only five years ago since the amalgamation took place, and at that time the shareholders of the Imperial Bank increased their capital in order to meet the requirements of the occasion when they were appointed bankers to the Government of India with a view to developing banking interests in India. Can we lightly contemplate again telling them to double their capital with a view to creating two separate departments?—If that be the amount of capital which would be needed, having regard to future probable liabilities, I should think you could lightly contemplate it.

14,983. Having increased their capital recently, the amount of the business which they are doing now in relation to their capital and reserves is comparatively very much smaller than similar business being done by the commercial banks, say, in England. Roughly speaking, I think the capital and reserves of the banks in England (I am not speaking of the Bank of England but of banks generally) overhead is round about 6 per cent. of their total assets or liabilities. With the Imperial Bank of India it is 11 per cent. or 12 per cent. already. If the business of the present Imperial Bank is materially reduced, as it would be probably if it did not receive the Government balances, it would mean that the Imperial Bank would have to earn a dividend for its shareholders on a restricted turnover of business even allowing for expansion. That is to say, while according to the figures now it has to earn a dividend on a basis of, say, 11 per cent. of capital and reserves to its total assets, the banks in England overhead have capital and reserves of only 6 per cent.?—Paid up?

14,894. Yes. Do not you think that is a handicap to the shareholders?—If your point is that the capital of the Imperial Bank to-day is greater than its requirements, I have no opinion on that point; but, in that case, it might be possible to make some division as between the two contemplated banks. The percentage of 12 per cent. in relation to liabilities which you gave me just now does not seem to me amiss for the capital of a Central Bank.

14,895. I am not speaking of the Central Bank. I am speaking of a Commercial Bank as it would be in the future as compared with the 40 odd Commercial Banks in England where the percentage, according to the figures, is, I see, only some 6 per cent. You would rule out of account the possibility of constituting the Imperial Bank under a different constitution as agents for the Government of India so far as the administration of the Note issue and other things are concerned? You would rule that absolutely out?—I should rule it out, yes.

14,896. In reply to the Chairman you gave in detail the items which caused you to think it would be not suitable for the Imperial Bank under its present constitution to act as the Central Bank also. First were the Note issue and the free inlet and outlet of legal tender. These, in your opinion, are such that it would not be possible for the Imperial Bank, as agents for the Government of India, to administer

the Note issue and the free inflow and outflow of gold?—In my opinion it would be possible, but not wise.

14,897. Is something like that not done in the Commonwealth Bank of Australia now?—I cannot tell you just at what point in its metamorphosis the Commonwealth Bank has arrived. It is actually being remodelled—and, I think, completely remodelled.

14,898. Speaking from memory, it was largely constituted as a commercial bank with a view to acting also as a Central Bank to the other banks. It did not get the note issue to start with. Afterwards it did get the administration of the note issue; that is to say, a Note Board was appointed. Then, more recently still, they scrapped the Note Board, and they have made over the note issue lock, stock and barrel to the Commonwealth Bank of Australia, and, as I understand it, I think the notes there are now issued by the Commonwealth Bank with the signatures of the Bank and the Government official concerned also on the note. Do you think that something of that sort or description might be possible in India?—That is, the bank issuing its own note, as I understand it.

14,899. With the signature of the Government official on it, and, as a last resort, I believe the Government of Australia accepts responsibility for the note issue. There is this difference, if I may say so—that is not a private bank. It has no capital in the proper sense of the term. It is a peculiarly constituted bank; but, still, they have so adapted the constitution that, while the Board of the Commonwealth Bank actually handles everything on behalf of the Government, the Government is ultimately responsible?—I do not know exactly where the Commonwealth Bank stands in these matters now, but, of course, as you say, it is gradually going through a change, and it is still changing.

14,900. Yes, it is?—My answer to you, I think, is precisely what was pointed out to me a few moments ago—that is, in paragraph 14,611. This is the first time I have had the advantage of reading the notes of my evidence. "Or whether that note should not be stated to be an obligation of the Government, or be guaranteed by the Government. This is a question of Indian mentality, on which I have no information."

14,901. I was only wondering whether you could bring your mind round to the point of view of considering the Imperial Bank as agents for the Government of India in the issuing of the note?—Instead of having the two separate institutions?

14,902. Yes.—No. I could not.

14,903. As far as the Government balances are concerned (I am referring to paragraph 14,575 of your evidence), these are now entirely, or practically so, in the hands of the Imperial Bank of India, so that to that extent it is immaterial whether we have the Imperial Bank as at present constituted, or a new Central Bank. The next thing is, that in reply to a question put by the Chairman, you indicated, I think, that the Imperial Bank as at present constituted was not the holder of the cash balances of the other banks, but my information is that it is largely?—I did not know that.

14,904. You assumed that they held them in their own repositories?—I thought most of them held most of their reserves in this country.

14,905. We are not speaking of banks in this country, but of Indian banks and of the money they are holding in India?—You are speaking of Exchange banks?

14,906. Any bank operating in India, so far as the money available in India is concerned?—I should not have thought it was true to say that the reserves of the Exchange banks operating in India were entirely, or even mainly, held with the Imperial Bank.

14,907. That is perfectly true, as you put it, but I will put it in this way: Are not the balances available in India, of the banks operating in India, now in the hands of the Imperial Bank to the same extent as in future they will be in the hands of the Central Bank?—I should say not.

14,908. Why?—Because I should expect in the future that all adequate reserves of all the banks doing business in India will be maintained with the Central Bank, and I do not think that is the case to-day.

14,909. Thank you; I will come back to that presently. The next point is this. You say that the Imperial Bank is now only part agent of the Government's financial operations, but could not it be equally well made the sole agent, or the whole agent, whether it was the Imperial Bank or the Central Bank?—Again I would reply that it could be; it is possible, but not wise.

14,910. With regard to the expansion and contraction of currency and the maintenance of stability, you said that the Imperial Bank was not functioning in that respect at all the same as a central bank was concerned. Having got your views in detail as to the advisability of modifying the constitution of the Imperial Bank, let us now turn to the Central Bank as you purpose having it?—I have not read my evidence through. I have attempted to state my views, but subsequent examination sometimes shows that these might have been differently expressed.

14,911. Coming then to the Central Bank, in view of the remark you made to me a moment ago as regards reserves, do you suggest that a percentage of the reserves of the banks operating in India, whether they are registered outside India or inside India, should be held legally in the hands of the new Central Bank, such as is done in America, where the member banks of the Federal Reserve system have to hold a fixed percentage?—My present view is this, that I should hold it would not be necessary to make that a legal enactment. I should hope it would be done by co-operation and good feeling on the part of the commercial banks; but if it were not so, either in the first instance or at any later date, it might require legal force.

14,912. Then as regards the deposits which are to be given to the new Central Bank if it eventuates, would there be any interest allowed?—No.

14,913. Neither on the Government of India's money nor on the commercial banks' moneys, nor on private depositors' moneys?—No.

14,914. In other words, the Central Bank under no conditions would pay interest on deposits?—As such, no.

14,915. Would you limit the number of the branches?—No, I should hope they would gradually but slowly increase as the habit of banking and investment spreads throughout India.

14,916. We are talking of the Central Bank?—I am talking of the Central Bank. I make no comparison in the number of branches which in my opinion the Central Bank would have as compared with what the Imperial Bank would have.

14,917. I will come back on that presently too. Take Savings Banks. The Imperial Bank now specialises on savings banks and takes deposits, and the Post Office does a large business in that way. Would you have the new Central Bank fathering the savings banks' deposits in India?—How do I understand "fathering"?

14,918. Well, mothering. Somebody has got to pay interest in a case like that?—I should imagine that the provision for savings was adequately met by the present arrangements of the Imperial Bank and the Post Office. I do not know. If it is adequately met I should leave it alone. If it is not adequately met, obviously some arrangement has got to be made to meet it; but I think it is really a domestic matter.

14,919. Would you restrict the type of investments of the Central Bank and confine it to investments, say, in Government securities, or securities of local authorities?—I should give the Central Bank as free a hand as possible, and trust to its good management

and good sense. I do not think I should, therefore, specifically limit its investments.

14,920. As regards its business, apart from investments, you would not restrict it entirely to rediscounts?—Oh no.

14,921. You would allow it to lend money?—Yes.

14,922. So that to that extent it might be in competition with the banks?—I should certainly make no provision which would prevent the Central Bank, if it thought necessary, from competing with the other banks. It might be very necessary for it to do so.

14,923. Is it not one of the cardinal virtues, as put to us, of Central banks that they do not compete with commercial banks?—It is, but that does not mean that they do not protect the business community from the banks, if necessary.

14,924. I do not know what the practice is at home, but I take it that people often lodge with the Bank of England bills without actually re-discounting them. They do not sell the bills to them; they pledge them very often?—Yes, often—everywhere.

14,925. The same thing would be done in India too?—Certainly. I think what I am trying to suggest is quite general, really. I am not trying to suggest anything special.

14,926. I appreciated very much the evidence you gave to the Chairman regarding the useful purpose which the Imperial Bank has been serving, not only since its inception at the amalgamation, but by the old Presidency banks previous to that. I cannot personally visualise how the Imperial Bank is going to go on developing and doing all that you still wish it to do unless it gets some privileges of some description. The Imperial Bank has already increased its capital, and it has opened a hundred new branches in the past five years. You have not been opening branches. I have, and I know what a shortness of personnel means, and I know that the wear and tear which the bank officials go through in a process of that description is very material. What I would like to get at is what you would really suggest, from your experience, as a *quid pro quo* to the Imperial Bank of India for having increased its capital, for having opened these hundred branches, and for having increased its Dead Stock very materially, if it is going to drop back into a commercial bank still desirous of opening branches and developing the banking habit, and yet not having the Government balances and other privileges which have been accorded to it in the past. Can you suggest how we can arrive at a *via media* as regards getting the use of Government balances from the Central Bank on certain terms?—I do not think I can suggest a means because I do not know enough about it. It is very much a domestic question. My hope, certainly, would be that the commercial side of the Imperial Bank would be continued; that the policy of opening branches as fast as convenient, and as generally as convenient, should be continued. Even if it is not so in the first few years, I hope and believe that in the long run that policy will be extremely profitable to the bank, and extremely beneficial for India.

14,927. That is a very pious expression of opinion?—That is quite right. Although I have no knowledge as to the quarters from which the commercial bank would obtain the deposits with which to do this particular business, I cannot conceive that in a community of the size and wealth of India there would be any difficulty in getting them. That is all I can say.

14,928. I do believe we are working now in the right direction and that the opening of these branches in India has been the very best thing that could have been devised for a system of banking in India. It is because I feel strongly on that point, and it is because I agree with all that you have said already in evidence on the point, that I am a little dubious as to the future of the Imperial Bank or the commercial banks in India without assistance similar to what that bank has been having in the past?—Assistance in the way of deposit, you mean?

14,929. Yes?—Something of that kind may be necessary, I cannot say.

14,930. I wonder if Sir Charles Addis can help us from his wide experience as a practical banker?—(*Sir Charles Addis.*) Your difficulty is that the new commercial bank will not be able to compete with other commercial banks because of its being over-capitalised?

14,931. That is one item I had in mind?—If its capital were reduced it would be able to compete.

14,932. Probably to a certain extent, but we must keep in view expansion as well as the mere earning of dividends. I am not looking at it from a dividend earning point of view alone. I am keeping in view the wider issue to which the Governor has referred in his previous evidence, and which we all have in front of us, more than anything else.—But the condition of expansion is that a bank should be able to operate on a profitable basis.

14,933. Quite so.—The new bank would be in the same position to do that as any other commercial bank in India, providing its capital bore a proper relation to its liabilities.

14,934. If I may say so, previous to the formation of the Imperial Bank, there was practically no expansion of banking in India by the then already established banks—with all due respect to the gentleman on my left. The exchange banks operated only in the big centres, and will continue to operate only in the big centres. The Imperial Bank has acted as a pioneer and has gone all over India. They must earn a dividend or they will not be able to continue doing that. Where is the inducement to them to continue? Where are the facilities to be given to them to expand banking in India, which is what we all desire?—The condition, I take it from you, is that that expansion can only be achieved by means of a Government subsidy. Is that your proposition?

14,935. I do not like the word "subsidy."—That is the form which in substance it must take. Either banking is carried on in India under such conditions that it can earn sufficient profit to enable it to extend, or the economic conditions are such that banking cannot be extended without the help of a subsidy. Is there any alternative to that?

14,936. That is a point on which I desire the benefit of your experience as a banker?—I am not aware of any other. A bank must either pay its own way, or have its way paid for it, if it is to extend. I can see no alternative.

14,937. Have you had any experience of banking in Japan?—No, not directly, but I have been in close contact with Japan for many years.

14,938. Is it not the case that the Bank of Japan has an arrangement with the Yokahama Specie Bank, whereby it has given certain duties to the Yokahama Specie Bank to perform, and it gives to the Yokahama Specie Bank a large proportion of its Government funds at a very low rate of interest—something like 2 per cent. Are you aware of anything of that description?—That is an instance of what I mean by Government subsidy. There are many ways in which a bank can be assisted, but they all come back to this, that somebody has to find the money either in the form of low rates of interest, free balances, or payments for services rendered.

14,939. Is it a practical proposition in the case of banks operating in India? Do you think that the banks operating in India would object to the Central Bank or the Government of India giving facilities in the shape of hard cash or other concessions to the Imperial Bank to enable her to continue the good work it has been doing in the way of extending banking in India?—I should not care, if I were the Government, whether the banks objected or not. If my considered policy were to

develop banking in the interests of India I should look upon that as a function of Government and disregard any protest on that ground.

14,940. You would not listen either to the Exchange Banks or to the indigenous banks coming forward and saying "Privileges are being given to the Imperial Bank, which, after all, is only a commercial bank, which are not being given to us"?—I hope I should be reasonable in listening to criticisms, Sir Alexander, if they were well founded—as, for example, that the subsidy was being given without an adequate return, or that the policy pursued was not in the general interest. Criticisms should be considered, but I certainly would not, if I were the Government, allow myself to be dictated to by any bank. The national advantage to India as a whole must be the primary, and the privileges, rights and freedom of the banks only a secondary consideration for the Government.

14,941. Reverting for one moment to the question of the Central Bank, as regards the remuneration to the Central Bank I take it you had in mind something in the nature of what is being done in connection with the newly constituted Reichsbank in Germany. Do you think that the principles now at work in connection with the Bank of Germany are applicable, say, to a Central Bank in India?—They are, to some extent, applicable, but the constitution of each central bank must be determined by the conditions prevailing in the country of origin; and they vary very much. I think all one can do at this stage is to lay down on general lines the governing principles on which to proceed. I see no reason why, for example, the Government in setting up a central bank by curtailing its freedom of competition so as to enable it to act as the Bankers' Bank, should not drive as hard a bargain as they please with regard to terms. The Government remains responsible for the currency, and to entrust the bank with the sole right of issue and control does not in any way impair their right to make such charges as may seem to the Government proper in the circumstances in order to prevent an undue share of profit accruing to the bank. The terms will be a matter of arrangement.

14,942. Speaking from your experience on the Board of the German Bank, do not you think what is being done there is a workable proposition?—I do not want to speak dogmatically about that. The German Bank has been in existence for less than two years, and during that period it has been passing through an extraordinary period of chaos, from which it is only gradually emerging. I would not like to give an opinion just at this point as to whether the statutes of the German bank may not require modification. I rather think they will. I should have thought so in your case also, and that consideration seems to me to mitigate the fears natural to engaging in any new enterprise such as a central bank. The original conditions will have to be adjusted and modified in the light of experience until a satisfactory working basis is attained.

14,943. (*Sir Alexander Murray.*) Just one more question in connection with the cover of the note issue. The Governor, in reply to Sir Maneckji and in reply to the Chairman, indicated that a percentage should be in gold and a certain amount in gold exchange. Would you agree with a certain percentage being held in silver?

14,944. (*Chairman.*) May I remind you of the previous answer to that question: "As to the silver in reserve, what is your view as to the desirability of there being a holding of silver in the reserve?—In the abstract I think it is not a desirable security; but if by law or by custom silver is legal tender or in general use, I think it would be proper that a moderate amount should be held in the reserve."

14,945. (*Sir Alexander Murray.*) It is arising out of that question that I was raising this point. I believe in the constitution of the Bank of England provision is made for one-fifth of the metallic reserve to be held in silver?—(*Mr. Montagu Norman.*) We are allowed to hold silver bullion.

14,946. Do not you think in the special conditions of India with its great silver tradition, it would be reasonable that a proportion of the metallic reserve might be held in silver?—It would appear to be reasonable.

14,947. Would you indicate a fifth, or some such figure?—No.

14,948. It is a matter for consideration?—Yes. (*Sir Charles Addis.*) I think in considering the reserve you have first to take into account the necessity of protecting the exchanges. Clearly that reserve should be in gold, or in gold securities. You have also to take into account any internal drain, and that reserve might, to a considerable extent, be in silver. The amount ought to be determined by the volume of currency required to maintain the stability of the price level at any time. Whether, in order to assure that, the silver in the reserve should be one-fifth or one-fourth, I do not know.

14,949. (*Chairman.*) Does the Bank of England, as a matter of fact, hold any silver against its notes?—(*Mr. Montagu Norman.*) No.

14,950. (*Sir Alexander Murray.*) What about the £7,000,000? If the amalgamation which is spoken of were to take place, what would happen to that £7,000,000?—That question remains for future consideration.

14,951. But it does exist even in a gold standard country like England?—Yes.

14,952. They do now hold £7,000,000 silver in reserve as cover?—£7,000,000 is held against the currency note issue.

14,953. In a gold standard country?—As Sir Charles says, it is not reckoned in the gold cover?—(*Sir Charles Addis.*) It is included in the fiduciary portion.

14,954. It can be reckoned in the Bank of England reserve if amalgamation takes place?—(*Sir Charles Addis.*) Legally it cannot; practically it is not so reckoned, and is not likely to be.—(*Mr. Montagu Norman.*) May I say one word, Sir Alexander? There are two things which have occurred to me in which I thought perhaps you had misunderstood me a little. The first is, in whatever I have said last time or to-day on this subject, I am only trying to state principles, and I am quite convinced that the principles of banking are dynamic and not static, and will have to be developed and frequently modified. That is the first thing I wish to say, because I thought perhaps on that you had misunderstood me. The second thing is this. I believe it to be enormously to the advantage of all the banks in India that the habit of banking should be encouraged by the spread of branches—the inducements to save and to bank should be pushed throughout India by the Imperial Bank, if there is no one else to do it. It is not a competitive thing, but it is for the advantage of all, in my opinion.

14,955. (*Sir Alexander Murray.*) Thank you very much.

14,956. (*Mr. Preston.*) In defining the function of the central bank, you said *inter alia* it should be the holder of all Government balances, the holder of all reserves; and then you emphasised the "all" reserves of other banks and branches of banks in the country. I take it that you mean their cash reserves?—Necessarily not merely that portion of its cash reserves which a bank may elect to hold in India.

14,957. Take a British bank with a head office in London and a branch in Bombay. What do you intend the central bank to hold?—I intend it to hold a reserve commensurate with the liabilities of the branches which the bank has in India.

14,958. Then really we have to modify the "all" to the extent of the percentage commensurate with its liability in India—and not all?—Will you give me the paragraph?

14,959. It is No. 14,571?—I do not see that that is wrong. It seems to me to be right.

14,960. The whole of all the reserves of the branches of the banks in the country, but I might reasonably have a reserve in India much in excess of the percentage which you desire. Unless the "all" is modified, is it your intention that I should disclose all my reserves and deposit them with the proposed central bank?—It is my suggestion that you should always be prepared to disclose your position to the central bank.

14,961. That is possible, but let me take this case. Sir Charles will appreciate the point. Supposing the case of a bank with a branch in Bombay, and holding one or two crores in Government securities there, and the outstanding liabilities to the public in respect of current account and other liabilities on percentage is ever so much below that, you do not for a moment insist that I shall deposit with this central bank the whole of my securities?—No; I do not think I do.

14,962. Simply on the percentage as shall be defined of the branch banks' liabilities to the public?—I think a reasonable percentage of your branches' liabilities in the country.

14,963. To the public?—Yes.

14,964. (*Professor Coyajee.*) Instead of starting *de novo* with a new central bank, would it not be the better policy to let the present Imperial Bank go through a gradual evolution so that it might shed its purely commercial aspects as there is banking developed in India?—That course is possible—I think most undesirable not only for the bank but greatly against the interests and development of banking in India.

14,965. Does not the working of a purely central bank assume a preliminary and considerable development of constituent banks in the country?—It certainly requires constituent banks.

14,966. A sufficient number in a sufficient state of development?—Yes.

14,967. Has that sufficient number in a sufficient state of development come about in India yet?—I should say fully.

14,968. In answer to Sir Alexander Murray, you observed that you would allow the central bank to lend money, that is to say, finance local trade, and so make profits. In that case, would the other banks deposit their reserves freely with the central bank which is competing with them by lending money?—Did I say that here?

14,969. In answer to Sir Alexander Murray you observed that you would allow the central bank to lend money. The question was: Was there sufficient profitable business in India for the central bank to earn profits, and you observed in answer to Sir Alexander Murray that you would allow the central bank to lend money, which, I presume, is to finance local trade?—I do not remember the specific question and answer.

14,970. (*Sir Alexander Murray.*) I do not remember the question in that form, but you might answer the question which has been put, apart from anything else?—I presume a central bank would primarily lend and endeavour to lend to other banks and bankers, and re-discount for them. I think I did say, in answer to Sir Alexander, that I would not necessarily limit their powers to being able to do that for the reason that I gave; but that is one of the two main functions of the central bank in its banking department, the other being the conduct of the business of the Government.

14,971. (*Professor Coyajee.*) If that is to be the primary business of the new central bank, then as the discount market in India developed that discount business in the main would supply amply sufficient profit to the central bank?—I cannot say whether the re-discount business would develop so as to do so, but I am quite certain there would be enough legitimate business of one kind and another to keep the central bank busy, and to enable it to earn adequate profits.

14,972. Might we formulate the bank's business into categories? As to the paper currency business, part of the profits would go to the Government. Again, the re-discount business has not developed very much. Then there remains the lending to the other banks. That will be the only thing left. Then another objection might be taken to the idea of a new central bank, and I would submit this argument for your observation. It is this. Would not a central bank formed now be overshadowed by the present Imperial Bank, and would it not be an anomaly that a constituent bank might have a larger capital and a greater business than the central bank does?—I do not think there is any necessary disadvantage in the constituent bank being larger than the central bank. It certainly will not be as liquid; but there is no reason why it should not be larger.

14,973. The constitution of a central bank would lead to a great duplication of the present staff of the Imperial Bank. The Imperial Bank has a big staff and numerous branches. The central bank would also have to keep a staff in most of these important places, and so there would be not only a sort of economic waste, but the doubt has been expressed whether there is sufficient human banking material in India for such a duplication.—Well, what do you think about it?

14,974. I have my doubts. If you ask me, I must express a doubt whether we can supply twice the bankers that the Imperial Bank is now employing and of sufficient calibre.—You do not want twice the bankers. If this plan is adopted, the Imperial Bank could at the outset transfer to the Central Bank some of the admirable staff which it has already collected, and so provide a trained nucleus for both institutions. I think there should be no difficulty about that. Any such division of staff would need to be made with good will towards the plan and with a complete understanding of what it involves and of the varying nature of the duties which would devolve upon the two banks in their respective parts in a scheme designed to promote the future welfare of India. I think the tendency will be towards the gradual development of a highly-skilled and technical body of bankers.

14,975. I should not be surprised if my neighbour was of opinion that his resources as regards human material have been already sufficiently strained by the opening of so many new branches.—He will have to go slow.

14,976. (*Sir Purshotamdas Thakurdas.*) At the end of your examination by Sir Alexander Murray, Mr. Governor, you said that you had enunciated before the Commission important principles on which you think a Central Bank in India should be started. If I understood you correctly, you also said that whilst you named those important principles, you would not object to such modifications being made as were necessary in view of the peculiar conditions in India?—Quite so.

14,977. I take it that you do not say: "If you cannot act upon all the provisions that are laid before us with regard to the establishment of a Central Bank, you should not take the note issue and management of the currency department away from the Government of India, but should let the Government carry on as they do at present"?—I do not follow you.

14,978. If the ideas which you have put before us cannot be immediately acted upon, would you leave things exactly as they are, namely, leave the management of the currency with the Government of India?—If I could make no improvement; I should leave things as they are.

14,979. If the peculiar conditions in India permitted some improvement, but not up to the maximum which you put before us, would you favour a start with that partial improvement, aiming at working up to your ideal, or would you say we should not start at all until we can immediately achieve your ideal?—Well, I think it would be

necessary that the Central Bank should start with a reasonable number of principles established, but the development of it, as I said to Sir Alexander Murray, must depend upon circumstances.

14,980. Provided there was a reasonable observation of the principles which you name, you would certainly say make a start and work up to the maximum which has been put before the Commission?—I should. There are some principles which at the inception I should fight for more arduously than others.

14,981. That was going to be my next question. Would you name one or two of those principles which you would fight for at the inception, and which you would look upon as absolutely necessary from the beginning?—I think the custody of Government balances, for instance, is most essential. I also regard as essential the control of exchange and the management of the currency.

14,982. When you refer to the management of the currency, may I ask if you mean absolutely without any control from the Government, or would you make a start with the bank as agents of the Government, aiming at finally working up to the bank's independent control of the currency?—I should endeavour to establish the latter at once.

14,983. But would you say, if you could not do that, do not make a start?—I should wait till I reached that dilemma. I do not know. There are a great many pros and cons which I think you would have to consider before that awkward question could bo decided.

14,984. There is a certain system in existence at present in India. Some witnesses, speaking not on behalf of the Government but who have had inside experience of the Government of India have expressed strong opinions that a start should be made in the direction of getting out of the existing Government system. If local conditions in India justify only a movement up to that extent, and not beyond it, what would you do, Mr. Governor?—Well, I do not think I can answer the question in that form.

14,985. My only point in raising that question was this: whether you looked upon the complete non-interference of the Government as such a fundamental thing as to prevent a start?—I do look upon it as fundamental.

14,986. If we could achieve or expect to achieve it in course of time, you certainly would not say, "Do not make a start in that direction"?—I cannot answer that.

14,987. You would not like to answer that?—No.

14,988. I think you said, regarding the necessity of having some Government representatives on the Board of the Central Bank, that you would give the Government only a small minority, and that minority too by nomination from amongst the merchants. I have had it suggested to me that the Central Bank of France has rather a different constitution. There the Governor and the Deputy-Governor, if I mistake not, are the nominees of the head of the Government. It has also been pointed out that the Central Bank of France has branches all over the country, and whilst it does not receive deposits it does do banking business in the sense in which the Imperial Bank does commercial business, namely, it lends. It does not lend on clean paper, but it lends against securities, I understand. Would you strongly object to a system like this being adopted at the start in India, if it was considered to be a feasible one in the existing circumstances?—Which part of the scheme that you have been speaking of do you mean?

14,989. The part of the scheme regarding branches of the Central Bank doing commercial business and the part of the scheme relating to there being some control by the Government?—I think you would more easily reach the aim which you evidently have in view by leaving that banking business throughout the country to be done by the commercial bank which will arise out of the existing Imperial Bank.

14,990. Then what do you say with regard to that part of the question as to the nominations by tho Government?—I should think that recent experience in Europe was a sufficient answer.

14,991. If there be no apprehension of such a position arising in India for say the next 10 years as has existed in some countries in Europe recently, it might not be equally objectionable to make a beginning in that direction, aiming at your ideal?—Well, it is not a good time to advocate it.

14,992. Even in existing conditions in India?—No, I did not say that. I said recent experience in Europe does not provide favourable grounds upon which to advocate that arrangement for India.

14,993. My question was, bearing in mind the conditions which are likely to prevail in India for the next few years, would this parallel in Europe apply so strictly?—I think it would as far as I am aware of those conditions.

14,994. Regarding the commercial aspect of the Imperial Bank, Sir Charles Addis said something in reply to Sir Alexander Murray, and I would like to carry it a step further. I think you asked, or Sir Charles Addis asked, Sir Alexander Murray whether he maintained that the opening of branches in the districts of India could not be done without a "subsidy," and Sir Alexander Murray did not follow it up. I propose to take it up there. Supposing I take the attitude that it is impossible under existing circumstances for Bank branches to be opened in the districts without a "subsidy," what would you, Sir Charles, say? You call the possession of Government balances or some other sort of assistance from Government a "subsidy." I say to you that it is not possible for any banking organisation, and least of all for a commercial bank which looks after the interests of its shareholders, to do anything towards the development of banking in India, especially in the inland districts?—(*Sir Charles Addis.*) My answer is that I consider the development of banking facilities in India of such importance that, if it were not possible by any other means than by Government assistance to secure it, then I should give Government assistance.

14,995. Then the question comes to this, if you took the Government balances away from the Imperial Bank under the scheme which Mr. Governor suggested to us, would not this useful activity of the Bank suffer and would not the development of banking in the country come to a standstill?—My hope is that if you were to confer upon the commercial bank the trading facilities formerly inherent in the Imperial Bank, it should be able to pay its way, provided of course that the capital was in proper relation to the business undertaken. If that is not so, then I should say that the shareholders are entitled to consideration in any arrangement which may be made.

14,996. If what you said is not feasible, then the shareholders are entitled to some reasonable arrangement in this connection?—Yes.

14,997. Let me take it a little further on. I take it that you are aware that wherever the Imperial Bank has opened branches it has not been so much a question of lending out money at those branches as of receiving deposits. Are you aware that where they have opened branches they have received deposits more than they have lent out money?—That is the way in which banks usually begin business. They first collect deposits and then proceed to use them.

14,998. Their experience has been that the activity in these centres has been more in the direction of lending money to the Imperial Bank branches opened there than in the direction of taking any assistance from them for the first few years. All the new branches show—I have verified what I say to you now with the up-to-date information of Sir Norcot Warren —that they help to bring out capital from the people there and have it deposited in the bank. That is the healthiest part of the opening of new branches by the

Imperial Bank. If coupled with this you bear in mind that these branches are not paying for the first few years, I hope you, Sir Charles, as the head of an important bank, will agree that no bank would undertake this operation, unless you offered some inducement. A bank would not undertake it merely in the interests of tho country—at least, no commercial bank would undertake it?—Banks are not philanthropic institutions, of course, but it is common experience that it takes some years for a new branch to pay its way. There may be a long period of sterile activity before any direct return is received. The indirect process is that the money as it comes in, flows where it is required, generally to the Head Office, and is there put to profitable use. A branch may be receiving deposits and showing an apparent loss; it does not follow that the bank as a whole is losing.

14,999. Just as a bank is not a philanthropic institution, so is a Government not a philanthropic institution, including the Government of India; but the Government of India has the patience to wait until results come in, in course of time, from the various branches and from the activities of the Imperial Bank of India. The strongest objection taken is that the Imperial Bank is a commercial bank, and therefore we must have a new reserve bank for note issue. A new reserve bank means taking away all the Government balances from the Imperial Bank. There is, therefore, nothing else with which the Imperial Bank can carry on its present activities without seriously imperilling the interests of its shareholders. In those circumstances is there any chance of the Imperial Bank continuing their useful activity regarding new branches? Does not this materially affect the question of the ideal which Mr. Governor has put before us so as to suit local conditions in India?—You appear to me to be putting forward an hypothesis which may or may not be correct.

15,000. Let us take it on the basis of hypothesis.—I will proceed to discuss it. You assume that after the separation of the banking functions conditions will be static and forecast the future accordingly. But surely the future of the commercial bank would depend, in the first place, upon the management, upon the energy and skill of those who conduct its operations, and their capacity to secure, in competition with other institutions, the business which at present they do not possess. Whether it is carried on at a profit or at a loss will depend upon the wisdom with which it is guided. You would admit that?

15,001. Of course.—The bank would be, or ought to be, the author of its own fortunes in developing a profitable trade. It is of the essence of banking to look ahead, to be content to work here and there at a loss, so long as the tendency of the business is to advance to a profit-earning basis.

15,002. If the Imperial Bank said at the present stage, where it has got 164 branches that it would stop and not do any more expansion, saying to themselves: "We will now wait for 10 years until all these branches begin to pay and bring in profits, making up for the losses which have been entailed," one could understand it. But what the Indian public expects from the Imperial Bank, as one witness said, is not 100 branches, but 1,000 branches, or 10,000 branches—and he named a higher figure still. Is not this activity of the Imperial Bank very important to the country, or would you be indifferent to their stopping at 164 branches and consolidating their position?—No; I think branch development is of great importance.

15,003. You would like them to have 10,000 branches?—I would.

15,004. How is that going to be done? Before the 164 branches become paying there would be 2,000 more to be opened, and before the 2,000 have become paying there would be another 8,000 to be opened. Is there any alternative to what you call the "subsidy" having to be continued?—I have such confidence in the resources of India and in the development of its banking system that I have no doubt as to the result. It is only a question of time. The degree of importance attached to the element of time will be the measure of Government assistance.—(*Mr. Montagu Norman.*) If any.

15,005. The extent to which this should be pushed forward, and the speed with which it should be pushed forward, is a matter not admitting of any difference of opinion. You yourself said a few minutes back you would like the number of branches to be multiplied five times?—(*Sir Charles Addis.*) Yes.

15,006. Is the Imperial Bank going to have any better experiences with regard to its new branches than it has had up to now?—I cannot tell.

15,007. Therefore, supposing the Imperial Bank said: "We must only pay dividends at the present figure," how is it even going to do that without Government assistance?—I have not suggested that it could.

15,008. No. Then I come back to this point, that some sort of subsidy is necessary for what is called the commercial aspect of the Imperial Bank if that important activity of the bank is not going to be stopped. Would you agree with that?—I say it is a question of degree. It would depend upon a variety of factors, such as the skill and activity of the management, or the period of time allowed by the Government for the accomplishment of the task. Subject to these considerations and measured by them, I should say myself (though I do not know that the Governor would agree with me) that some degree of Government assistance might be justified.

15,009. We will credit the management with the same degree of efficiency and skill as they have exhibited until now. We will not go into that any further. With that degree of efficiency you agree, if this activity is to be continued, some sort of what you call "subsidy" would be necessary to maintain this part of their activity?—Are you not again assuming that conditions are to remain the same? As I understood the proposal of Mr. Governor, it is that, the separation having being made, the freedom of commercial competition will pass to the Commercial Bank, which will thus be given a capacity of development which it does not possess at present.

15,010. That is as far as existing banks are concerned. I did not understand Mr. Governor to be expecting that new commercial banks would be starting in India with the withdrawal of Government assistance from the Imperial Bank. I do not know if I understood him correctly.—No; my point is this: that the fissiparous portion, the Commercial Bank, when established by itself with full freedom of movement and capacity for action, would no longer be a part of the present Imperial Bank.

15,011. You mean that the Imperial Bank would then be able to make larger profits in its commercial activities in the more established centres like Bombay, Calcutta, Madras, Karachi and Rangoon, than it does at present?—I mean that generally the power of the Commercial Bank to expand its business and to compete with other institutions would be increased.

15,012. To that extent you expect that the Imperial Bank will show better results in that direction?—I do.

15,013. Although the Imperial Bank would have formidable competitors in banking institutions already established, you think that the Imperial Bank would gain from competition in those places?—I think fair competition is the best stimulus a bank can have. I regard it as an important factor in its progress.

15,014. I have no doubt that competition is most desirable in the interests of the community to be served by the banking institutions, but whether that competition would mean larger profits is the question which I was referring to. Would it lead to larger profits for the Imperial Bank?—I have had a good

many years' experience, but I have never found that fair competition damaged tho interests, either of the community, or of the bank.

15,015. Profits may be affected even by fair competition. I thought competition generally reduced profits.—I believe that to be a profound mistake. Profits in the aggregate may be enormously increased by the relative advantage that competition gives to ability. (*Mr. Montagu Norman.*) So do I.

15,016. I would like to wind up this part of the matter with this remark. I wonder if you would agree with it or not. In the general question of currency and finance for India the question of the development of banking facilities in India plays a very important part, and the activities of the Imperial Bank in that direction can be looked upon as very satisfactory up till now, and should be encouraged?—(*Sir Charles Addis.*) I regard the development of banking in India as of great importance from the point of view of the currency, a counterpoise to hoarding, an incentive to economy in the use of currency, a stimulus to private saving and investment in interest bearing securities instead of gold. It would mitigate the menaco to the currency of the silver rupee. It was the fear of a rise in the price of silver which was partly responsible for the rupee being fixed on the Statute Book at an exchange of 2s. In all those directions the development of the banking system should be a regular part of the policy of the Government of India. Whether the Imperial Bank carries that out satisfactorily I am not in a position to offer an opinion.

15,017. I was only referring to the activities of the Imperial Bank with regard to opening branches, which is a thing they have done because by Statute they were expected to do so. It is not that I am asking you to give any certificate to the Imperial Bank. I am only stating the facts and ask you whether they have not acted up to their part, and thereby they have not done a useful service in the direction which both you and I approve of?—Your question has really a qualitative as well as a quantitative aspect.

15,018. Then let us deal with them separately?—As regards the quantitative aspect, I assume that it is a good thing to open branches; so far they have done well.

15,019. That is quite clear?—Whether the branches have been opened in the most advantageous quarters, or whether wisdom has been shown in selecting in order of importance and urgency the most profitable economic centres to be served, is a point on which I am not competent to give an opinion.

15,020. You are not in a position to discuss that?—No.

15,021. If there was nothing strong which could be urged against it, you would agree with me in the qualitative part also?—My answer would be qualified by my information as to whether the action taken was wise or unwise.

15,022. Supposing I put it in this way. In opening branches generally they have done the right thing, and it has been of service in several ways, namely, preventing people from hoarding, and putting before them the inducement to invest?—I do not differ; but even here I must qualify my answer by remarking that branches may have been opened in places where it may be found impracticable to establish a bank, even eventually, on a paying basis; with that exception, I agree.

15,023. There may be one or two cases like that, but we are discussing the question in general?—Then in general, my answer is, yes.

15,024. I should like to put to you, Mr. Governor, one question. It has been stated that the interests of the proprietors of the Imperial Bank have to be safeguarded, and you said in reply that you did not see that any harm was done by the scheme that you mentioned, to the proprietors' interests. May I take it your opinion is that in the solution of this question the proprietary interests of the Imperial Bank's shareholders should be safeguarded so far as they may be compatible with the broader question of the best interests of the country and the State?—(*Mr. Montagu Norman.*) I think in the scheme which I tried to explain, the shareholders' interests are not in jeopardy. What I meant was that what they lose on the one side they gain on the other. That is the specific reason why I suggested that whatever fresh capital might be necessary should be offered to those who hold the existing capital, and thereby, so far as I can see, if they lose anything on the existing capital they will gain it on the new.

15,025. If it was contended that a few shareholders may not be able to take up more than the existing capital their particular interests should not affect the decision so far as the main interests of the country and the State are concerned?—I should think generally that is true.

15,026. (*Sir Reginald Mant.*) Among the categories that you would exclude from the directorato of the Central Bank you mention politicians?—Yes.

15,027. Could you give us any idea of your definition of that term?—I think that definition should be adapted to local circumstances. I am sure it must be an expression which is well known in India.

15,028. The term is very widely used in India. There are a number of political activities there quite outside the Government, and a number of political associations. I wondered whether you intended to debar members of those associations from the management of the bank?—I do not know enough about the conditions, Sir Reginald, to answer your question in detail, I am afraid, but I do intend to exclude those people whose primary interest in life is said to be politics.

15,029. You suggested that 40 per cent. of the reserve against notes should be held in gold. Would you lay down the maximum percentage in the bank's charter?—No.

15,030. No percentage at all?—No.

15,031. You would simply leave that to the discretion of the bank?—No. I think what I said was that 40 per cent. in gold or gold securities should be the minimum.

15,032. But you would lay down no minimum of gold?—No, I do not think so.

15,033. You think it would be safe to leave that entirely to the discretion of the bank?—Certainly I do.

15,034. Would you hold the gold holdings entirely in India?—I should prefer to leave that to the directorate. The question would be subject to any legal provisions.

15,035. They would be free to hold it either in India or in London?—They would be free to hold it where they liked. I think on all matters such as that the Board should be given the utmost freedom.

15,036. Supposing they adopt the policy of acquiring a 40 per cent. reserve of gold, do you think there would be any difficulty in their getting the gold? The note issue is approaching 200 crores. 40 per cent. of that would mean 80 crores. With the rupee at 1s. 6d., that would be £60,000,000, and also I may point out that the note issue has increased very rapidly. It has trebled itself in the last 10 years, and it is quite possible that it will double itself, say, in the next 10 years. That would mean £120,000,000 of gold would be required in the next 10 years?—When I spoke of 40 per cent. of gold, I had that in mind as the ultimate figure, if I remember right, and I am still regarding it as an ultimato figure.

15,037. Which you would contemplate being acquired gradually?—Very gradually, if at all, but in the discretion of the board.

15,038. You have recommended that the Government should retain the responsibility for taking over redundant rupees?—In silver.

15,039. Yes. Would you recommend that the Government should retain possession of the present gold reserve of £40,000,000, which was built up in order to provide against the depreciation of the silver rupee?—I am not familiar with the position in detail, but in general I should not so recommend. I think that should go to the bank.

15,040. Would it not be necessary for the Government to hold the reserve against these redundant rupees? The Government, under your scheme, has to take them if required by the bank, and provide gold or gold securities in their place. The Government would have to maintain a reserve, would it not, against such commitments?—I do not think that any existing reserves should be withheld from the Central Bank for that purpose. The Government has received full value for any rupees which it would now have to take over from the bank, and would or might receive something for the silver which it would sell. It is only a question of detail, at any rate.

15,041. Then you contemplate that the Government should sell the surplus silver and not hold it?—No, I do not contemplate one or the other, but I presume there would be a limit to the amount which they would wish to hold.

15,042. At present the holding of silver in the currency reserve exceeds 80 crores of rupees. It is between 80 and 90 crores?—Yes.

15,043. I take it you would consider that excessive for the bank to take over?—Very.

15,044. So that the Government would either have to hold it or sell the silver?—Yes.

15,045. I understood from your criticism of the original scheme that you did not recommend the Government to sell a large quantity of silver?—My criticism of the original scheme was that the gold proposals were linked with silver proposals of such extent that sales of silver would necessarily break the silver market.

15,046. And it would do so under the scheme which you have put forward to-day?—I have not dealt with any silver—at least, not directly.

15,047. You suggest that the bank should only hold a small amount of silver, and you suggested that the Government should be responsible for drawing off the surplus supplies of silver. There is at present under this proposition a considerable silver supply which the Government would have to hold in reserve or else sell it, and thereby upset the silver market?—I consider that the bank should hold only a very moderate reserve in silver. Silver is token coinage, and that is the affair of the Government. If the silver coinage in the hands of the Bank is redundant, the Government should take it over. If it is short, they should supply it. They do so here and in practically every country. That is either by law or custom. If it is necessary for the Government to do so in order to discharge its obligation, it will continue the present policy of holding such reserves in silver as you have named.

15,048. But the policy which the Governmont has followed in the past has been to build up a reserve fund in gold from the profits of the silver coinage, and to earmark that fund against the possble redundancy of silver, and against having to withdraw rupees. The question I asked was whether you consider that the Government should continue that policy and maintain a reserve against the redundancy of the rupee?—I do not really feel I know enough about that, but, generally speaking, I think the responsibility for the silver coinage, the rupee, must continue to be that of the Government only, and that, so far as concerns maintaning a reserve against that, I think it is a question for them. I do not know.

15,049. Do you not think it would be prudent for the Government to maintain a reserve against a large and uncertain liability of that kind?—I do not know. I have never had to consider the matter from that angle.

15,050. (*Sir Reginald Mant.*) Then I will not trouble you further with it.

15,051. (*Sir Henry Strakosch.*) Supposing that a new central bank were set up—an entirely new and separate institution—could you give us your views as to what the capital of that bank should be?—Well, I had not intended to express any view on this, but it occurred to me while Sir Alexander Murray was speaking that the figure which he named, viz., 12 per cent. of the liabilities, seemed to me to be about right.

15,052. (*Sir Alexander Murray.*) The proprietors' capital and reserve at the present moment represent about 12 per cent. of the total assets or liabilities of the bank as shown in the balance sheet.

15,053. (*Sir Henry Strakosch.*) It is very difficult to assess what the future deposits of the new bank will be. The present capital of the Imperial Bank, I understand, is about 11 crores.

15,054. (*Sir Alexander Murray.*) The subscribed capital of the Imperial Bank at the present time is $11\frac{1}{4}$ crores, and the paid-up capital is 5 crores 62 lakhs and 50,000 rupees. Then there is a reserve belonging to the proprietors of 4 crores, 82 lakhs and 50,000 rupees.

15,055. (*Sir Henry Strakosch.*) Would you regard 10 crores paid-up capital as sufficient for that bank?—Well, I do not think I can answer the question in that way. I think I could only suggest that it should be an amount bearing some relation to the liabilities which the bank was expected to have in the near future.

15,056. You would say that something in the neighbourhood of $12\frac{1}{2}$ per cent. of the total prospective liabilities in the immediate future would be adequate?—I should take some such figure as that.

15,057. Would you recommend that its shares should be fully paid up or partly paid up?—Personally I think in the case of a central bank they had better be fully paid up.

15,058. It was suggested when you were examined earlier that it would not be a proper thing to offer to the shareholders of the present Imperial Bank the right to subscribe for the shares of a rival bank, the new central bank being called the rival bank. Would you regard this new central bank as really a rival of the Imperial Bank?—Not at all. In fact I should hope that the relations between these two banks would be extremely close and cordial, just as I hope that similar relations would be developed between the new Imperial Bank and all the other banks in India.

15,059. Is it not a fact that all the modern charters or statutes of central banks closely define the operations of those central banks, and that, taking the limitations that are put upon those central banks, they cannot really compete with an ordinary commercial bank. I may perhaps quote one or two of those limitations which are usually put on central banks?—By law, do you mean?

15,060. By law or by custom. In those which have been more recently established these principles have been laid down in the charter, and therefore are statutory. One is that they are dobarred from making unsecured loans or advances, from drawing or accepting bills payable otherwise than on demand, and from accepting money on deposit for a fixed term, or allowing interest on credit balances on curreut account?—Yes.

15,061. Do not those conditions alone throw the Central Bank entirely out of the field of competition with the commercial banks?—I think they do.

15,062. Therefore, a true Central Bank established on principles that are now recognised as sound, could not in any circumstances be regarded as a rival to the Imperial Bank, especially if that bank is freed from present restrictions?—It could not.

15,063. In your experience, Mr. Governor, regarding the provision of capital for central banks in the more recent past, is it not a fact that in every instance the capital was quickly found, and that the

shares of those central banks very quickly reached a high premium above their par value?—The capital was either immediately or quickly found, and in every case with which I am familiar the premium was established.

15,064. Therefore, it is really conferring a privilege, an advantage, on the proprietors of the Imperial Bank if they are given the right to subscribe for these shares at par?—On the proprietors it is essentially.

15,065. Is it not a fact that there is hardly a modern State whose economic development is progressive which has not established a central banking system?—As far as I am aware there is not one, and I think I may go further and say all those countries which have progressed most quickly, and, so far as one can judge, most permanently, with reconstruction in the last six or eight years are those where you have had a strong and independent Central Bank.

15,066. Would you regard it as more important to establish a system on those lines rather than concentrate on the idea of developing branch business? In other words, is it not more important that a country's credit organisation should be placed on what practice has shown to be sound lines rather than concentrate upon expanding the commercial banking business by way of establishing branches?—I am in favour of expansion for the commercial bank as part of its general policy and of the establishment of credit organisations on the lines that you have mentioned through the Central Bank.

15,067. May I put it in a different way?—Perhaps I did not understand you.

15,068. Would it not foster banking in a country which is not properly endowed with a banking organisation if the system established were a sound one, and is not the central banking sytem one which would foster more than anything else the spread of banking in that country?—A sound Central Bank will, I believe, do a great deal to increase banking through the country, certainly.

15,069. So that if India were to establish a true Central Bank it would lay the true foundations for the proper development of banking in India?—I think so. I do not think it can ever be developed without the establishment of a true Central Bank on proper lines.

15,070. (*Chairman.*) Is there anything in the long journey we have taken to which you would like to return by way of amplification, before we close your examination?—No.

15,071. I am sure it will be the desire of the Commission that I should express to you, Mr. Governor, and to you, Sir Charles Addis, their very warm appreciation of the generosity with which you have put your time at their disposal, as you have been most helpful to the Commission?—Thank you. If we could serve you again, I am sure it would give us the greatest pleasure to come here on almost any day.

15,072. (*Chairman.*) That is indeed most kind of you.

(*The witnesses withdrew.*)

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# FORTY-SEVENTH DAY.

## Friday, 30th April, 1926.

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PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER.
Mr. A. AYANGAR. } (*Secretaries*).

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Mr. GEORGE E. ROBERTS, called and examined.

15,073. (*Chairman.*) I should like in the first place to express our high appreciation that so distinguished a citizen of the United States as yourself should have come to assist us in our deliberations here in a manner which will be greatly to our advantage. We also wish to thank you in particular for the labour which it must have cost you to prepare the very interesting memorandum* which we have received from you. It would be of interest to put on our records the fact that you have been Director of the Mint in the United States—if that is the proper designation?—That is the correct designation.

15,074. A position which, of course, brought you very much into contact with the problems of currency all over the world, and amongst others, no doubt, with the problem of the rupee?—I was quite familiar with it during those years. I have not kept up with it quite so well since I have been out, which is some 10 years.

15,075. At present you are Vice-President of a great bank, namely, the National City Bank of New York?—I am.

15,076. Your memorandum is so full and, if I may say so, so clearly expressed that there is very little indeed, as far as I am concerned, that I need ask you in further elucidation of it, but perhaps I may ask you one or two questions in order to ascertain where you lay the weight of emphasis in the considerations which you advance. In your first paragraph you say "I need not dwell upon the benefits to be gained by all countries from the restoration of a common standard of value. The experiences of the last 12 years have afforded ample demonstration of the evils resulting from unstable currencies and exchanges." The common standard of value to which

* Appendix 86.

you refer is, as I understand, the gold standard?—Yes; I refer to the gold standard.

15,077. Then you take up the question of the world's gold markets, and at the end of your second paragraph you say that you are inclined to the opinion that the prospective supply of new gold is large enough to permit the general re-establishment of the gold standard without serious disturbance to prices, provided all possible economies in its use are effected, and the new stocks wanted are acquired without too much disturbance of existing stocks already in use as the basis of credit. What is the nature of the economies which you have in mind in your reference to all "possible economies"?—Chief among them is that of retaining gold in bank reserves instead of putting it freely into circulation—instead of returning it to circulation in the same degree in which it was used before the war. Then I think that economies may be accomplished in the use of gold in bank reserves and by closer co-operation between the central banks of the world in the management of trade balances, so that there need not be so much shipping of gold from country to country. In the long run trade must come into balance, and I think that, by co-operation between the banks of the several countries, the shipments of gold may be reduced considerably from what they have been in the past, and that therefore they can work upon smaller reserves than have been thought necessary in the past.

15,078. The converse no doubt is also true, Mr. Roberts, in your opinion—that if all possible economies are not effected, then the prospective supply of new gold is not large enough to avoid serious disturbance to prices?—I think there is room for doubt about it; in fact there is doubt about it in the minds of some competent people—economists—whose opinions are entitled to respect. As I have stated below, the gold reserves to-day are considerably larger than they were before the war, and the general price level is adjusted to an expansion of credit. It is going to be necessary in the future that the additions to the reserves shall be larger from year to year than they have been in the past. That is where the question comes in as to whether the annual production is going to be sufficient to replenish and add to the reserves fast enough to keep pace with the growing volume of business and to maintain the existing price level.

15,079. You make special reference in the succeeding passage to the influence of possible claims for gold for circulation, and you say, "If there should be an expansion of business over the world and at the same time a general replacement of gold coin into circulation, the gold reserves probably would not be sufficient to supply the amount of credit necessary to maintain the present price level. In my opinion it would be a mistake at this time to afford facilities anywhere for gold to be absorbed into circulation." A mistake from whose point of view—from the point of view of the people who want the gold in circulation, or from the point of view of the people who are going to supply the gold for circulation?—I am looking at it from the general world standpoint with regard to the recovery of the world to normal conditions; the general recovery of trade, and prosperity the world over, which I think is what we must endeavour to promote in the interests of all countries.

15,080. That is, it would be a mistake in the general interests of all countries?—Yes.

15,081. I understood that that was really your meaning, but I wanted to make it clear. Then you emphasise the need for gold in certain other parts of the world—in Central and Eastern Europe—and you say that gold is needed in all of those countries to permit credit expansion, to lower interest charges, and to stimulate a revival of trade and industry. Could you amplify that by telling us what in your opinion would be the effect of making it more difficult for those countries to obtain gold?—It would retard their recovery. All through Central and Eastern Europe interest rates are very high as judged by all the standards of the past. Ten and 12 per cent., and even higher than that, are common rates of interest. Such rates signify a greater scarcity of liquid capital, and a very pressing demand for it. Undoubtedly business is being retarded and industry is being held in check by such interest rates and by the inability to obtain capital. It is evident that in a situation like that only the very best borrowers are going to be accommodated at all. There are great numbers of would-be borrowers who are practically unable to obtain accommodation, which means a restriction upon business and upon industry which is retarding development and lowering the consumption of those peoples. It is reducing the consumption of goods which all the world is wanting to sell, and it illustrates the fundamental difficulty, as I see it, in the world to-day. All countries are complaining of inability to sell their products at remunerative prices. The fundamental reason is that the consumption of the world is below normal.

15,082. Then we pick up the interesting figure, in paragraph 10, that the United States lost about 134 million dollars during the year 1925. Then we pass on to a most illuminating passage in paragraph 17, where you say: "It is a mistake to suppose that the United States has any considerable excess of gold reserves at this time. At the present price level, and with the present volume of credit outstanding, the reserves of the United States are no greater than the financial authorities of the country deem reasonable, conservative and desirable." Then you point out that in July, 1914, the gold holdings of the Treasury and banks equalled about 7 per cent. of the aggregate amount of credit currency in circulation, together with the net individual deposits of the banks, and you add that at this time they do not exceed 8 per cent. Now, the state of affairs which you emphasise there is so much in contradiction of what, in view of your statement, I may call the popular rumour or superstition as regards the gold holding in the United States, that I wonder if you could amplify it a little and explain to us how it is that it has come to be supposed that there is a great excess of unneeded gold in the United States if, as it appears from your evidence, that is not at all the case?—It is true that the United States has received very large quantities of gold since the outbreak of the war—approximately two and a-half billion dollars, or, say, 500 millions sterling; but the outstanding credits and liabilities of the banks have increased in corresponding degree. The figures given include the Government reserves against its outstanding currency, and the reserves of the Federal reserve banks against their own liabilities, and it should be understood that the last-named reserves also serve as the reserves of what are called the member banks—the individual banks of the country which, in fact, do the general banking business of the country. If you take the amount of gold in the reserve banks alone as compared with the outstanding Notes of the reserve banks and the deposits of the individual banks (all of whom look to the reserve banks for their cash reserves) you will have a percentage considerably less than that 8 per cent.—I think less than 6 per cent. I have stated here the reason why I think that those are moderate reserves for a country like the United States, spread over as much territory as it is, and with the character of the banking system which we have. We have great numbers of individual banking institutions having just one office, and that only in the community in which the bank is located. They are not as a rule run by trained bankers. They are run generally by men who are usually good judges of credit risks in their communities, but they are not trained in the science of banking. Prior to the establishment of the Federal reserve system there was a very great

want of organisation and unity in the banking system. The Federal reserve banks were established and the reserves were taken largely out of these individual banks and put into the reserve banks in order that there might be more cohesion and organisation—more leadership and management—to the system; but it must be considered that all these 30,000 individual banks to-day have practically no cash except what they need for till money, and that their reserves have been put into the reserve banks. So that the latter are the dependence of all the banks of the country in the matter of cash reserves.

15,083. From those considerations you arrive at the conclusion, expressed in a subsequent paragraph, that in the opinion of yourself and other high authorities the present reserves in the United States are not excessive?—We do not regard them so. It must be considered also that the volume of business is increasing in the United States from year to year.

15,084. That being so, it would follow that it would be an illusion to suppose that to such authorities as yourself the export of gold from the United States would be welcome?—It would not be welcome. I would not say that we would be unable to spare any. Of course we want some margin that can be spared if need be, but we do not want to spare it unless there is a real demand and genuine necessity for it somewhere, and where it is going to help the general world situation. We did spare 100 million dollars to Germany for the reconstruction of the monetary system of Germany. That was carrying out what is known as the Dawes plan which the United States had some part in formulating, and upon the general theory that the establishment of Germany upon a sound monetary basis was important to the whole world.

15,085. You do not consider it a natural policy for the United States, to force gold away?—Not at all.

15,086. For any purpose?—Not at all.

15,087. In other words you would not be glad to get rid of it?—Whatever gold goes out will go out of the reserves of the reserve banks. That is practically the only place where gold is to be had, and if withdrawn from there the effective banking reserves of the country will be reduced to that extent, unless we reduce our credits to correspond, which we would not want to do.

15,088. You were good enough in your memorandum to give consideration to a certain outlined proposal for a gold currency in India. You say at the outset that you do not feel that you have a sufficient knowledge of conditions in India to express an independent opinion on the amount of gold required or the amount of silver that would have to be taken from the public and disposed of, but that you are proceeding in your subsequent analysis simply upon the basis of the figures submitted to you in that scheme, without expressing yourself any judgment as to whether they can be supported or not. You say in paragraph 23 that you are of opinion that the plan will subject the financial world to a strain which ought to be avoided. You are dealing there with the provision of an additional supply of gold?—Yes.

15,089. You point out a little lower down that the financial world is so closely related that wherever the loan is placed, or the gold obtained, the effects would be felt in all countries. You mean that the gold supply of the world is so generalised, as I understand it, that you cannot take a bucketful out of the pool in one place without reducing the general level all over?—You cannot.

15,090. Then you proceed in paragraph 27 to say that you do not believe that a gold circulation is essential to the maintenance of a gold standard in India with all the benefits that go with a gold standard anywhere, and you add, "The essential thing is that the currency in circulation, and which the people receive in payment for wages and products, shall have a stable relation to gold and be readily convertible into gold for all the foreign payments they wish to make." Further you say, "In all the advanced countries the trend is away from the use of gold as a common medium of exchange," and later on you state, "I do not believe the countries of Europe ever will go back to the common use of coins," and finally you say, "A gold coin has become a rarity in any part of the United States." Would you assist us, Mr. Roberts, by telling us something, from the point of view of instructed American public opinion, on the question of gold circulation? Is it looked upon in the United States as a thing desirable in itself—as a thing that the American people would like to have; I mean to have gold coin actually in circulation?—It is not. We have got clear away from the idea that it is any more desirable to have a payment in our domestic trade in gold coin than in any other of our forms of money. In fact nobody wants it. It is not so convenient as our other methods of payment. Our thought about it is that the modern business world has really progressed beyond it. After all, we think that gold is a modified form of barter, and with the growth of modern business we have developed through our banking system much more economical methods of accomplishing payments. The great bulk of our payments are accomplished through the banks and the clearing houses by a system of offsets. Cheques and drafts meet every day in the clearing houses, and the settlements between different parts of the country are accomplished in that way. In a similar manner the cheques which are drawn on the different banks in the same city meet in the clearing house and offset and settle themselves. We have got into the habit of doing all our business without the use of gold itself, although we recognise gold as the basis of the entire system and of settlements between countries. We regard it as a costly medium of exchange. We think a token currency or a paper currency is more economical. We would be wanting a great deal more gold than we have got to-day in the United States if it was a common medium of payments in retail trade.

15,091. The average American citizen does not feel that there is anything undignified in having a circulation which is not actually gold?—They will push gold back if you attempt to give it to them—not because they have any idea of discrediting it, but because it is heavy in the pockets. They would rather have paper money.

15,092. In fact, are there any localities in which, or any conditions under which, there is an active circulation of gold in the United States?—I think not now. Down to the late war they did use gold in California. The Pacific coast was the main gold-producing region of the country for many years. When the Government suspended specie payments during the Civil War they were not suspended on the Pacific coast. That section was isolated in a way from the rest of the country. There was no railroad connecting the Pacific and the Atlantic coasts at that time. The Pacific coast States and territories were a community to themselves, and they never did adopt the paper currency as a medium of exchange, but continued to use gold during that period. On the other hand, during that time all the Eastern section of the country got out of the way of using coin and never wanted it again, but the Pacific coast used gold coin to a considerable extent, although in diminishing quantities until recently.

15,093. After rather a close examination of Indian conditions you arrive at the conclusion, as I understand it, that the real line of attack in India should be the development of banking facilities?—Yes, I feel that very strongly.

15,094. And that this should take precedence over an increase of facilities for the widespread distribution of gold coin?—Yes.

15,095. The end you are seeking to bring about is an increase of investing and depositing habits in India, is it not?—That is so.

15,096. And if you can do that without distributing gold coin then you have achieved your purpose without an intermediate period of sacrifice?—Yes,

and at this time I think the gold will serve a better purpose in the bank reserves than it will in being passed round from hand to hand or kept in private pockets.

15,097. Then there is a weighty sentence in your memorandum where you say that you are impressed with the fact that in the present situation the problem of restoring the world to the gold basis is dependent for success largely upon India, and you add, "I am sure that success will serve the interests of India as well as those of the other countries." So I take it to be your conclusion that this question of the supply of gold for India may have a decisive effect upon the future of the return to the general gold basis in Europe and in the civilised world?—I think it is the most important factor in the situation to-day. In looking forward to the task of providing European countries with the gold they need in order to stabilise their currencies, the chief danger which I apprehend is the large demand from India. The demands from India are large any way. They are bound to be very considerable, I take it, whatever the currency system is there, because India has always taken a great deal. I should think it most unfortunate if India at this time were to increase her takings of gold.

15,098. It is your opinion that it is in the interests of India to co-ordinate her requirements for gold with the general position as regards gold in the rest of the world, and that it is in the interests of India for her not to disregard the general situation as regards the supply of gold? The words I am stressing and emphasising in my question are "in the interests of India"?—I thoroughly believe that the business of the world is so closely knit together nowadays that business depression anywhere, or any condition which affects the prosperity of large bodies of people anywhere in the world and which reduces their purchasing power, will be felt in every country. India has large exports of commodities which enter into the industries of other countries and which inevitably are affected in price by the condition of the industries of other countries—whether they are able to run full time or only half-time. All that at last comes back on to the purchasing power of all the peoples. I think we must all try to work for the support of this general world organisation. That is the thought we have in the United States and which we are trying to bring our own people to see. At any rate, the institution with which I am connected holds that view, and we endeavour to spread that doctrine among our own people, namely, that we must co-ordinate our national policies to the policies which, in the general way, are necessary to the prosperity of the world, and also that we ourselves, in the long run, will prosper by so doing.

15,099. Then we come to that part of your memorandum which deals with silver. If you will pardon my saying so, I find that the argument here is so closely knit and so full of matter that it is almost impossible to select any single point which requires any further elucidation. Might I ask you, therefore, if you will be so good, just to tell us a little more with regard to what I may call the reaction which a proposal for a sale of silver by India (such as that appearing in the memorandum which you have had put into your hands) would have upon the United States. You say, for instance, that this will be regarded in the United States, and also in other producing countries, as a very disturbing proposal, and in a subsequent passage you say, "It goes without saying that the silver producing industry will hear of this proposal with dismay." Further, you point out the reaction of the proposal upon the producers of other countries, and so on. Can you explain that a little further by telling us first of all whether, in your opinion, those apprehensions which will be felt, and that dismay to which you refer, would be justified from the point of view of the silver and base metal producers?—It is a fact of record that for a long time India has been the chief final market for silver. It takes approximately one-third of the world's production. It could not be other than disturbing to silver producers to learn that India was contemplating a change in her monetary system under which she would offer for sale as bullion an amount of silver coin estimated at 687,000,000 ounces. That is equal to nearly three years' world production. Such action certainly would be demoralising to the market, at least, while the sales continued. I am myself unable to see where any new or increased consumption could be found to take the surplus which would exist. I doubt that any moderate decline in price would increase consumption outside of India to that extent. Therefore, I am strongly inclined to the opinion that the calculation upon which the plan seems to be based, to wit, that the sales could be made at not less than 24 pence per ounce, would be found to be erroneous. I believe that under the circumstances the price would go lower—quite possibly much lower. I have explained in my preliminary statement that silver has been a subject of political agitation in the United States, and that public sentiment is sensitive upon it. I have illustrated the way sentiment reacts to it by the action of the Congress in the case of the Pittman Act. We had a great store of silver dollars in the Treasury which were practically of no use. They were represented in circulation by silver certificates, but the certificates were not regarded as dependent alone on their silver backing; they were a charge on the gold reserves in fact. Of course, the silver depreciated in value. There did not seem to be any way to realise whatever value it did have, until along came this enormous demand for silver for settlements with India in 1917-18, and a proposal was made to allow this silver to be sold for that purpose. At first sight it looked like a windfall for the United States Treasury, as a means by which it might realise upon all this unavailable silver at its original cost. A Bill was introduced to permit the sale, but it did not get very far before it developed that there was no prospect of it passing without an amendment to the effect that the Government should repurchase all of this silver if it ever fell as low as one dollar an ounce and re-coin and restore the stock in the Treasury. The silver producing industry was active in that movement. It gave leadership and voice to it, but, after all, I do not think that Congress would have been moved by the plea of the silver producers alone. The old sentiment which had always opposed the movement of the United States away from silver weighed against the Bill and helped to carry the amendment to which I have referred, so that the Government has since repurchased all of the silver that was sold at that time. I refer to that simply as illustrating the sentiment which has been behind the silver producer.

15,100. Is that at all a regional sentiment?—It is, in a degree. Silver is produced throughout all our mountain States—our Western States along the Rocky Mountain Chain. It affects many States, and under our system of Government, as you doubtless know, the States are all upon an equality in their representation in the United States Senate. For instance, the State of Nevada, which has less than 100,000 inhabitants, and which is a silver-producing State, has the same vote in the United States Senate as has the State of New York. Thus the silver-producing interests are especially strong by reason of their distribution over a considerable number of States with small populations. The most important feature of this opposition, however, arises from the fact that silver production is identified with nearly all our metal-mining operations, with the production of silver and copper; and anything which strikes a blow at the silver-producing interests is regarded with equal apprehension by the lead, copper and zinc interests. So that altogether it involves a large amount of capital, the prosperity of very important industries, the employment of many people and the well-being of important communities. When I received the invitation to appear before this Commission I happened to be in Paris, and met over there the President of the Anaconda Copper Com-

pany, which is the largest silver mine in the United States, although it is known as a copper mine. I asked him something about the relationship of his silver production to his operations—how important the price of silver was to the operations of his business. He replied: "Silver furnishes us all our profits and bears a part of our expense. Naturally it is a very important factor in our business."

15,101. "Furnishes all our profits"?—All the profits and a part of the cost. That is to say, it is a by-product of their business, which itself is produced at very slight additional cost, and they rely upon it for the profits of their business. The Anaconda Copper Company is the largest mining enterprise in the United States, employing a very large number of people. I would not undertake to say how many, as I have not looked it up, but I should think not less than 25,000 workmen are employed by it. I know that the case of the Anaconda Copper Company illustrates the situation of most mines producing lead and copper in the United States. I could name a number of other copper and lead mines, famous the world over, which are large producers of silver, for instance, the Broken Hill Company of Australia, the Burma Corporation of India, the Cerro de Pasco Mining Company of Peru (which is the largest silver producer in the world, but its main revenue is from copper), and the Mexican Corporation, a British Corporation here in London which is operating mines in Mexico. I mention those to show that this situation does not exist in the United States alone, but is common to the silver-producing industry the world over.

15,102. In view of the action that was taken by the United States Government to assist the British and Indian Governments with silver under the Pittman Act, in what way do you think a proposal of this nature to sell silver would be looked upon?—I do not think that I would want to base the sentiment upon what the United States did in that emergency. I do not think that that would be the factor of chief importance in it. I think the whole proposition would be viewed with very deep concern in the United States as something seriously affecting one of the important industries of the country.

15,103. I gather from you that if it came to the point of India needing to raise credits in the United States in order to carry out a scheme which would involve this manner of dealing with silver, whoever was concerned to give credit would have seriously to consider this matter of public opinion on the silver question to which you have referred?—No loan could be floated in the United States for a foreign country, or for use abroad (particularly if it was to be taken in gold) without the approval and the co-operation of the Federal Reserve Banks because that is where our gold is held. The Member Banks have neither the reserves nor the spare credit to handle such a loan without going to the Federal Reserve Banks for co-operation. Their funds are freely employed. If they were going to participate in such a loan they would need to borrow from the Federal Reserve Banks and arrange with them to supply the gold. Therefore I say that such a proposition must first have the approval of the Federal Reserve authorities. Then again while the United States Government has really no authority at law to forbid citizens of the United States from lending money abroad, as a matter of public policy it requests the Bankers not to participate in foreign loans, or offer them to the public, without first submitting them to the Government for approval. No foreign loans are offered without first being submitted to the Government for approval, and the Government has laid down the general rule that such loans at this time must be for reconstruction purposes. They must be of a character which class them as calculated to promote the general recovery of industry over the world. It is recognised that Europe is very short of capital, and no objections are made to loans in Europe which are clearly for reconstructive purposes, the stabilisation of currencies being in that class. I might mention several loans which have been disapproved of by the Government and which therefore have not been offered in the United States. There was, for instance, what was known as the Potash Loan, the proceeds to be used in Germany, which appeared to be largely for the purpose of effecting a combination of potash producers, and was deemed objectionable because it was thought that such a combination would not be in the interests of the potash consumers of the United States. On the whole, the loan was one which did not meet with the approval of the United States Government, and the bankers of New York did not participate in it. Another was the Coffee Loan to Brazil, in which the Bankers of New York were offered participation. That loan was avowedly for the purpose of stabilising the price of coffee. Our Government took up the position that this was not a loan in which the people of the United States were interested or which could come under the general class of reconstruction loans, and it was disapproved of and was not offered in the United States. I think you would have to consider that a loan to carry out this plan would meet with vigorous opposition, certainly from the silver-producing interests, and opposed by no little public sentiment.

15,104. It would be opposed by public sentiment?—To a considerable degree, yes, and by influences which have always been strong in the United States. I would not undertake to anticipate the action of the Government; I do not think it would be proper for me to do that, but I think you would have to count upon opposition.

15,105. (*Sir Rajendranath Mookerjee.*) You say in paragraph 46: "Even if sales by India abroad be left out of the account . . . . it is difficult to see how the current production of silver could be disposed of outside of India." Knowing the history of the currency difficulties in India, you cannot expect her to take more silver than she has been taking; rather one can go further and say she will not buy any more silver now but will do her best in future to keep out of the silver market. If that is so where and how will you dispose of the current production of silver?—In case India does not buy silver a large amount of silver will become unsaleable.

15,106. So the menace to the silver market would still exist if India does not come into the market for silver?—Yes; it will exist if India ceases to be a buyer of silver. I am assuming that under this proposal to sell 687 million ounces, India would practically cease to be a buyer of silver for some time, and perhaps be a seller. In that event I do not see how the present silver production of the world could be absorbed; I cannot see where there would be an outlet for it. In that event I think the silver would pile up on the market and the price would fall until production was curtailed to the amount that could be consumed; and I do not see how that would occur without affecting these mines which are producing copper and lead in connection with silver. Therefore I take it that not merely the silver-producing industry but also almost the entire metal mining industry would be affected, which very much broadens the scope of the influence. Furthermore, I doubt that under the conditions India will be able to realise the price for silver which seems to be contemplated. Those are the points I wish to make.

15,107. You say in your memorandum that the problem of restoring the world to a gold basis is dependent for success largely upon India. Will you kindly enlarge this as to why it should be so?—As I said a moment ago, the takings of gold by India are large in any event and are likely to continue to be large. The chief danger to the efforts to bring the world back to a gold basis is the amount of gold which is being taken by India. It is large at best, and we expect it to continue to be large because it always has been; but if India in addition to that is going to want 250 million dollars in the first year of this plan, over and above its ordinary and usual

takings, then I think the whole plan and effort to bring the world back to a gold basis will be imperilled. Therefore I think it depends largely upon India whether we are going to be successful or not.

15,108. (*Sir Maneckji Dadabhoy.*) In answer to the Chairman you laid stress on all the countries of the world practising economies in the matter of their resources of gold?—Yes.

15,109. And you suggested as one means of bringing about those economies that there should be co-operation between the central banks of the world in the matter of reducing shipments of gold. That co-operation between the central banks of the world may be an ideal, but is it practical politics in the existing state of affairs with trade rivalry, and the desire of each country to secure for itself a larger share of business?—I recognise there are difficulties about it, but, as with all other international difficulties, I think we must endeavour to approach the matter in a spirit of co-operation, and endeavour to do what will serve the general interests best. Although there is competition there are matters in which co-operation is mutually advantageous. I think all countries will benefit from the general re-establishment of the gold standard.

15,110. But up to now there have been no indications of such co-operation on the part of the central banks of Europe, have there?—Conditions in Europe have been very unsettled, and under the circumstances co-operation necessarily has been limited. These banking institutions cannot undertake serious risks. I do not suggest that kind of co-operation. The Federal Reserve Bank of New York, however, has arranged credits in several instances for central banks in Europe in order to enable them to draw without shipping gold, notably upon the occasion of resumption by the Bank of England. I think there is a disposition among the banks to co-operate as may be practicable. Governor Strong, of the Federal Reserve Bank of New York, I understand, will follow me, and he can answer those questions really more authoritatively than I can.

15,111. You know that India has got a large balance of trade in her favour?—Yes.

15,112. She would be justified in demanding in payment of her net balances of trade shipments of gold, would she not?—Yes.

15,113. Could you possibly refuse that demand of India on moral or equitable grounds?—I do not know how it could be refused, but if you develop your banking facilities in India, and the gold goes into the banks' reserves, perhaps those banks can assist somewhat in the financing of world trade, as other reserve banks do. If the habit of making investments in securities is developed in India, I should think that perhaps they might take securities at times instead of gold, in the same way as between London and New York there is a constant movement of securities backwards and forwards which minimises movements of gold.

15,114. What securities?—Government securities; and there is an increasing number of Corporations of world-wide reputation which have well-established credit in all markets.

15,115. In other words, in your opinion India should invest her favourable balances in foreign loans. It comes to that, does it not?—I think it would be better policy to do that than simply to hoard the gold. I would not say that it would not be better for India to develop her own corporations and her own industries and issue her own securities, and all that would involve the use of this gold in some way, and, under such circumstances, in the long run, India I think will come into the position of these other countries where trade offsets itself to a great extent, and that while gold may go one way in one year it will go back in another year. I would like to see India come into the general concert and family of nations, as I think she would if she developed her banking facilities and the investment habit of the people.

15,116. That needs a standard of education among the masses?—Yes.

15,117. Which is a very slow process in India?—Yes. So far as trade balances are concerned, I think India must be paid in some way to her satisfaction.

15,118. And she would be entitled to demand gold?—Yes. I do not see how you are going to buy things from people unless you give them something that they want.

15,119. I have been very much impressed with your excellent memorandum in many ways, but I was a little staggered on hearing the statement which you made in answer to the Chairman regarding the potentialities for a gold supply in America. I gathered that you said there is not a large reserve which America could safely part with?—Well, I would not say we are down to the last dollar of reserve which we could spare; I would say that we just have a reasonable margin on which to go.

15,120. But it is a well-known fact that during the war and after the war America accumulated enormous reserves of gold?—Yes. Our gold reserve has little more than doubled, and our bank deposits have risen from 18 billion dollars to 47 billion dollars in the same time.

15,121. In this period?—Between 1913 and 1925.

15,122. That includes the reserves of the Federal banks also, does it?—The deposits rose from 18 billion dollars to 47 billion dollars. That does not include the deposits in the reserve banks, because that would be duplication. I am talking about the original sources of deposits. I do not include bank deposits at all. If one bank has a deposit in another bank, I do not include it, because that is duplication.

15,123. Then the general impression which prevails that America has two-thirds of the world's gold is erroneous, is it?—It is erroneous that it has two-thirds. The reserves of the United States are, approximately, four billion dollars, and of the world very close to 10 billion dollars. That is about 40 per cent. The total stock of money in the United States, of all kinds, in 1913 consisted of 50 per cent. gold and the rest other forms of money. In 1915 the percentage was 51 per cent. gold and 49 per cent. other kinds of money. That is the stock of all kinds of lawful money. I have already told you how the bank deposits of the country have increased in the meantime. In other words, the gross charge upon our gold reserves has increased in proportion to the increase in the gold reserves. To-day there is no additional lending power in the banks of the United States except as they go to the reserve banks and draw down their percentage of reserves. The whole theory of our reserve banks is that there shall be something in reserve there; that we shall not employ their resources all the time.

15,124. What effect do these large reserves in your various branches, and these large accumulations of gold, have on the internal prices of commodities in America?—The price level is a little higher in the United States than it is in Great Britain and in Europe at this time. That is because prices here have fallen in the last year. About a year ago, I think, the price levels were about the same in the United States and Great Britain, but in the last year they have fallen here and have remained constant over there.

15,125. Is not that an embarrassing circumstance?—It may affect our trade eventually, and it may force a lower level of prices there.

15,126. So, after all, the possession of such a large accumulation of gold is not an unmixed blessing?—Quite so, but it is a very unpopular move to restrict credits and reduce prices as a policy.

15,127. When was this new rule introduced in America saying that loans of gold should only be made for reconstructive purposes?—You understand that I am talking about foreign loans?

15,128. Yes?—The United States practically entered the foreign loan field after the War, and this rule has been in force during all that time.

15,129. You stated in answer to the Chairman that America lent 100 million dollars to Germany?—Yes.

15,130. If India wanted 50 millions worth of gold in a couple of years' time, would it be a drain on America if India is shown the same generosity as America showed to Germany?—I do not think that India is in quite the need of help in which Germany was. Germany was in a very desperate situation. She had no currency system at all. She was flat on her back, and Germany in the heart of Europe is an essential part of the whole European situation. The United States participated, in an unofficial way it is true, but nevertheless she had some part in the development of the Dawes Plan which includes this reconstruction of the German monetary system. These are special reasons why the United States should be interested in that German loan.

15,131. But you have laid great stress on co-operation between all the central banks of the world. Would it be unreasonable for India to expect that co-operation from the central bank of America?—I certainly think that India would have the same claim to co-operation if she could demonstrate that her plan was necessary to her prosperity and in the general interests. Certainly I think that then the claims of India would be entitled to respect, and would have a hearing; but I think that this plan as it is outlined here is not calculated to enlist sympathetic co-operation in the United States—certainly the silver part of it.

15,132. (*Sir Henry Strakosch.*) Referring to your most interesting statement that the gold cover to secure your structure of credit in America now is at the rate of 8 per cent., whereas before the war it was at the rate of 7 per cent.?—That is right.

15,133. I wonder whether you would agree that that arises to a large extent from the fact that the purchasing power of gold has decreased since 1913?—Certainly. The general rise of prices has made it necessary to employ more money—more credit—in conducting even the same physical volume of business.

15,134. If the same volume of business were done to-day it would need something in the neighbourhood of 60 per cent. more gold to give that structure of credit the same base as before the war?—That is true.

15,135. It has been suggested to us by one or two witnesses that, having regard to the great holding of gold in the United States and the fact that the United States is the most important creditor and can claim the repayment of debt in the form of gold, it would be in the interests of the United States to appreciate gold so as to improve her position as a creditor and as a holder of gold. Is there any important body of opinion in America which would support such an idea?—There is not. I think that the general business interests of the country—the industrial interests—would be opposed to any such theory, and that they are far more influential than the mere theoretical consideration that we would gain as a creditor nation. The employment of our people, the matter of keeping our industries going and trade flowing freely is the dominant consideration, and any general effort to depress prices would bring business depression in the United States. We might easily lose an amount equal to all the debts we have coming to us if we demoralised our industries.

15,136. Her primary interest, therefore, is to maintain the level of prices of the present day?—Yes—stability.

15,137. And if she maintains the present level of prices then there would be no redundant gold, or little redundant gold, in the United States, unless the structure of credit were reduced, which reduction would again react upon the level of prices?—Yes.

15,138. Therefore am I correct in saying that you believe that the amount of gold in the United States is no more than she wants, and is not likely to be decreased because the policy will be followed of maintaining prices stable at the present level?—That is my view.

15,139. Your reference to the development of banking in your memorandum encourages me to ask you one or two questions about that. Would you please give the Commission your views as to the benefits or otherwise which have accrued to the United States by the introduction of the Federal reserve system, as compared with the system which was in operation in the United States before the war?—It has given a far greater stability to the banking situation in the United States. Before the war we had no elasticity in our currency, for one thing. Gold was about the only element subject to change. If we needed an additional amount of currency, we had to bring it in from London. We had a certain amount of silver currency and of paper based upon silver. We had a certain amount of United States Notes—Government currency outstanding, which was a fixed amount, always the same. We had National Bank Notes—another form of currency. You will observe that we have a very complicated system of currency in the United States, which we are not proud of, but the volume of National Bank Notes was practically a fixed amount. The National Bank Notes were secured by the deposit of Government bonds with the Treasury of the United States; and in as much as practically all the bonds outstanding were up as security all of the time, there was no elasticity in that currency. We had a practically fixed amount of currency, and we had a season of stringency every fall at the time of the crop moving season, and at times this developed into bank panics. We had a number of occasions when there was a general suspension of bank payments over the country, simply for want of cash. Now these Federal Reserve Banks have the power of note issue. They are able to vary the volume of currency to suit the seasonal fluctuations of demand, and the result is the former periods of such stringency have disappeared, as each individual bank has behind it the resources of the Reserve Bank. It has inspired confidence throughout the country in the local banks to a much greater degree than existed before. It tends to reduce the danger of anything like banking panics.

15,140. Would you regard that system as a far safer one in case of any banking trouble?—Yes.

15,141. What would be your view if in 1907 there had been a federal reserve system in operation in the United States? Would you say that the effects of the crisis would have been anywhere near as great as they were under the old system?—We would have had no such crisis at all.

15,142. You would not have had it at all?—There was nothing in the general business situation really to bring about such a crisis as that. It was a scare. Certain prominent operators in New York City became involved in trouble, and through them certain banks became involved, and then the country banks which kept balances in New York began to withdraw them. They read in the papers that there was a panic, and that there were bank runs on in New York, and they began to withdraw their balances. It very quickly spread all over the country. I was in Chicago at that time; I was president of a bank in Chicago. We got word that the clearing house in New York City had determined to suspend cash payments the following day, and we immediately got into communication with the clearing houses at St. Louis, St. Paul, Minneapolis, Kansas City, and other places, with the result that practically an agreement was reached to suspend cash payments the following day all over the United States, simply to conserve cash. We expected that there would be runs on us. If the country banks could not withdraw their money from New York City, they would naturally turn to Chicago, where many of them had funds. That would be the next point to be drawn on, and we determined that it was useless for us to attempt to pay if we were going to be drawn upon, not only for their normal demands on us, but also for the demands which would

have otherwise gone to New York. We notified St. Louis, and they said, "If New York and Chicago are going to close, St. Louis can never stand up," and so it spread throughout the country.

15,143. Was that state of things due, do you think, to the fact that each bank held its own reserves?—Yes.

15,144. Without the power of recourse to a central institution?—Yes.

15,145. If there had been a central institution which had held the reserves of the banks, and which was in a position to expand the currency according to law, such a thing could not have happened?—That is true, yes. It is a good deal like providing a water supply for a city as a defence against fire. If every house has to depend upon its own well or its own cistern you are not in a very good position to fight a fire.

15,146. So you regard it as of supreme importance that the reserves of the country should be centralised?—Yes.

15,147. And that this central institution should be endowed with the sole right of note issue?—Yes.

15,148. The argument has been put forward that India had not sufficiently advanced in its banking organisation to justify the establishment of a central bank, and that the central banking system in America had become necessary because of the great number of banks operating in that country. What would you say to that proposition?—You certainly have a considerable number of banking institutions in India and in different parts of the country, and if you spread the demand over the whole country—that is, if you had a central institution to which any part of the country could apply for aid, and that central institution drew its resources in some degree from the entire country and was also endowed with the power of note issue so that it could supply currency in the denominations that were wanted—you would certainly be in a very much stronger position than if each locality had to support itself, and depend on its own resources.

15,149. I have one other question on this central banking problem. Do the Federal Reserve Banks carry on ordinary commercial banking business?—They do not.

15,150. They do not?—They do not.

15,151. Would you regard it as desirable that the central bank should carry on the ordinary everyday commercial banking business?—I should think not. It brings them into competition with the other banks of the country. There is only one argument for it which is of some consequence, and that is that in order to exercise a desirable degree of control over the money market it is necessary that the central bank shall be in the market to a certain extent. That, however, is accomplished with us by giving the banks authority to conduct what is called open-market operations. They do not receive deposits from any except their own member banks, but they do buy securities and they do buy bills on the open market.

15,152. To enforce their policy?—To enforce their policy, yes.

15,153. But not because they consider it right that the Central Bank should carry on commercial banking?—No, it is in order that they may exercise a degree of influence upon the money market. They can relax the situation in the market or if they think conditions are becoming speculative and that inflation is under way, and that too much indebtedness is being created, they can force a rise in the interest rate at a time when they think it is desirable to check this unhealthy development.

15,154. One other question. It has also been suggested that a central bank for a vast country like India is unsuitable because economic conditions in various parts of the country differ widely?—Well, I should think that might be met by branches in the different sections.

15,155. In the United States you have found no difficulty?—We have, as you no doubt know, 12 reserve banks, which were established for that reason. That is the way we do it. We had two plans before the country. One of them, which was known as the Aldrich plan, contemplated one institution, but with 15 branches in different parts of the country, each branch to have a given territory allotted to it, but they were all united at last in this central institution. That plan met with objections largely because of certain antagonisms which existed in the interior towards New York. There was a fear that New York would dominate the whole system. The main central office was to be in New York, and the people in the West said, "New York will run the whole thing, and we do not want that"; so the plan that was finally adopted divided the country into 12 districts, and established an independent bank in each district with its board of directors in each district, all presided over by the Federal Reserve Board which sits in Washington, and the members of which are appointed by the President of the United States. That is the uniting bond between them; otherwise these banks are independent. Personally I favoured the other plan of one central bank. I thought it would give a great degree of unity to the system. I still think so, but you have to have regard for the opinions of people in different parts of the country, and if they suspect you your influence with them does not have very much weight.

15,156. In other words, it is a decentralised central reserve plan?—Yes, that is it.

15,157. Just one other question, with regard to silver. The United States have entertained rather close relations with China in trade. Have you any views as to the effect on Chinese trade and Chinese monetary policy if there were a danger of a severe drop in the price of silver?—I think it would be very demoralising to the Chinese trade. It would certainly upset existing conditions.

15,158. And might lead to China abandoning silver as its standard of value and adopting gold?—Yes, I think it would.

15,159. (*Sir Reginald Mant.*) Sir Henry Strakosch asked you whether there was any danger of deliberate appreciation of gold in America, and you said you thought not, because business interests would be opposed to it?—Yes.

15,160. Can you tell us whether there is any risk of the contrary process—the depreciation of gold? Is there any risk of prices rising through there being a little too much gold in America?—I think not, because you see it is all in use. The effect has been felt. We have got about as large a volume of loans as we can carry on our present gold reserves except that as the reserve banks take on the loans and take them over from the member banks, that would lower their percentage of reserves. I do not think, however, the reserve banks have any disposition to do that, nor do the member banks have any inclination to enlarge their borrowings as a permanent thing at the reserve banks. They went through all that experience in 1920. We had an enormous expansion in the post-war boom, which finally collapsed in 1920. The member banks the country over got very deeply indebted to the reserve banks through their endeavours to satisfy the demands of their customers. The result was that when the fall in prices came, the banks suffered heavy losses, and they got a severe lesson. Both the business public and the banks got a severe lesson, and there is very little disposition on the part of either the business public or the bankers to have a further expansion of credit in the country by recourse to the Federal reserve banks.

15,161. It follows, I think, from what you have said that the gold reserves are not more than sufficient for the present position?—Quite.

15,162. And there is not any serious danger of inflation?—I do not think there is. We are apprehensive, of course, all the time of gold imports. We

do not want them. We are lending heavily, of course, to Europe, which has the effect of preventing further importations of gold, and if Europe rights itself and gets back to a normal state, I do not think we will have further gold importations. That is the basis of the only apprehension there is as to further inflation. If gold would continue to come in and pile up in the reserves, the tendency of bankers is to keep their resources employed of course.

15,163. Then your view is that America has not too much gold, but she does not want any more?—That is my view.

15,164. If she got any more there would be a risk of inflation?—Yes. We have adjusted ourselves to the present stock. If we had not got it all in use I think it would be just as well if we did not have so much, and our price level would be lower, but the task of reducing the price level is a very serious one It deranges all business, and it would be a very unpopular move.

15,165. You have explained to us that the scheme put before you for introducing a gold circulation in India and disposing of surplus silver would not meet with a sympathetic reception in the United States. Supposing we were to come to the conclusion that India needs more gold for the purpose of strengthening her reserves—not for circulation and not in substitution for the silver in circulation, but to strengthen her reserves of currency and banking—and supposing we considered that she should gradually acquire that gold, would there be any opposition to that course in the United States?—I do not think there would if there was no radical change in her system, but merely a gradual acquisition of the gold thought to be necessary to stabilise her currency. I think she would have the same claim to that as any other country would have.

15,166. In fact, America would treat that claim sympathetically?—I think so. I see no reason for a different attitude. However, a general re-organisation of the currency which would involve the taking of, say, 250,000,000 dollars' worth in a year in addition to the amount that India is ordinarily taking sounds very formidable.

15,167. There is just one other question I want to ask you, and that is with regard to the use of silver. You have stated in your memorandum that the purchases of silver by Governments for coinage purposes have always represented the principal consumption, and you have pointed out that there has been a decrease in those demands, and stated that you do not think they will be revived. Is not it a fact that the coinage was given up because of the large increase in the price of silver, and is not it possible that if there was a large fall in the price of silver various nations would take to silver coinage again?—I should not think so. The disuse of silver coins in Europe was mainly due to the great inflation of token money. Silver is not likely to be used except for subsidiary purposes. It is not likely to be adopted by the nations that have a gold standard currency as a full standard of value, and the amount of currency that is used for the smaller coins for subsidiary purposes is necessarily limited, and it increases only gradually. Taking the case of the United States, our subsidiary coins are half-dollars, quarters and dimes, which correspond to your half-crowns, shillings, and so on. They go out in the busy season of the year—in the fall of the year—and after the holidays they come back into the Treasury. The Treasury redeems them, and there is a regular flow in and out. I do not think that would be affected by the price of silver. It affects the profits of coinage, but it does not affect the demand by the public.

15,168. Then you do not think that a fall in the price of silver would lead to an increase in the consumption of silver on the Continent of Europe for coinage purposes?—For coinage purposes I do not think it would. It might to some extent prevent the substitution of a still cheaper substance or material like nickel, but I do not suppose that any more silver is in circulation in Great Britain to-day because the silver content has been reduced to about 50 per cent. than there was under the old Act when the percentage was eleven-twelfths. In other words, the demand is created by the public.

16,169. Yes, but on the Continent small notes have taken the place of silver to a very large extent, and is not it possible that silver will come back into general use in place of small notes?—Well, small notes are still cheaper than silver, I suppose, if that is a consideratiou.

15,170. We have had that proposition questioned in India?—As to whether it is so? Well, I believe there is some question about it. Paper is quickly worn out. Answering your question generally, my impression is that a fall in the price of silver would not materially increase its consumption for coinage purposes. So far as my acquaintance with the currencies on the Continent goes, that is the case, though there may be instances where what you suggest would be true.

15,171. (*Sir Purshotamdas Thakurdas.*) In paragraph 27 of your valuable statement you say that the essential thing is that the currency of a country shall have a stable relation to gold?—Yes.

15,172. You say: "The essential thing is that the currency in circulation, and which the people receive in payment for wages and products, shall have a stable relation to gold." Would I be correct in inferring from our discussion until now that you prefer a gold standard to a gold exchange standard for any country, speaking generally?—I think that a gold exchange standard is an effective means of maintaining the internal currency at par with gold. I do not think the payment of coins into circulation and their common use in circulation is a necessary or important factor in maintaining the currency at par.

15,173. We will keep the coin question separate. I am at present referring to the standard you would recommend any country to adopt; you would recommend a country to adopt the gold standard in preference to the gold exchange standard if it could do it and afford it; would that be a fair inference to make from our discussion this morning, the reasons being what you have said just now?—Yes, I think that if the conditions are suitable that would be so. During the period before the war, when we were having a rise in price level, the payment of gold into circulation tended to stabilise the situation. The absorption of gold into circulation at that time helped to stabilise prices. It depends a good deal on what the conditions are, and the main point I have in view now is that we are in danger of a strain—of a scarcity of gold—in our efforts to restore the general use of the gold basis over the world. The essential thing is to get the countries all back to the use of a common standard of value so that prices the world over are related to each other, and you can make definite calculations as to what, say, the value of the rupee is going to be in dollars a year from now or six months from now, and similar calculations with regard to all the currencies of the world. If you could get them all on to one level, I think it would greatly promote the trade and industry of the world and the consumption of all peoples.

15,174. (*Chairman.*) It occurs to me that our phraseology, by which we distinguish between a "gold standard without the circulation of gold" and a "gold exchange standard," may not be quite familiar to Mr. Roberts.

15,175. (*Sir Purshotamdas Thakurdas.*) Would you help me, Sir, to put it in the way which you know I mean, and that Mr. Roberts will understand? I myself saw Mr. Roberts' difficulty.

15,176 (*Chairman.*) I wanted to make it clear, Mr. Roberts, that for the purpose, as it were, of shorthand in our discussions we are rather accustomed to speaking of a "gold standard with a gold currency" on the one hand, and of a "gold exchange standard" (in which the currency is maintained by an undertaking to buy and sell foreign exchange) on the other hand; and, in between those, of a

"gold standard without a gold currency," which might perhaps be described as a "gold bullion standard," in which the currency is maintained by an undertaking to buy and sell gold bullion. It is that that we commonly refer to as a "gold standard without a gold currency"?—I understand your meaning. As I have said, the essential service of the gold standard is in maintaining the currency of a country in stable relations to the money of other countries and thus affording a common basis for prices. The gold exchange standard is a method of maintaining a currency at par with the minimum of gold actually in reserve. The Government undertakes to supply exchange as wanted by the public. This provides against any pressure for exchange which would disturb the relations, and if a country's internal finances are in order and it has a favourable trade balance the parity is maintained quite easily and with less expense than with a considerable gold reserve. I am not aware of any country in which the currency has depreciated so long as its currency was readily convertible at par in the principal money markets of the world. It would be shipped out until scarcity at home made it worth more there than outside. By this method a country is making use of the reserves of other countries. It may carry interest-bearing securities upon which they realise as needed, or it may borrow to establish credits in certain central markets, but if it draws against them the reserves of such markets quite likely will not be disturbed at all, for the gold probably will remain there. The system tends to a further concentration of reserves, to a development of a world clearing system, and to economy in the use of gold. Whether the so-called gold exchange standard is suitable to a country depends upon conditions. A centre of world trade and finance which is always carrying large deposits of foreign funds and must be able to respond to varying demands could not get along on the gold exchange standard. You could not think of an important clearing centre like London without the means of final settlement in its own vaults, but it is noteworthy that before the War London constantly handled a larger volume of international payments than any other centre on smaller reserves of gold. This was largely because of its assured creditor position which kept the balance of payments in its favour. As I understand the last British gold standard act, it practically provides for what you have described as the "Gold Bullion Standard." That is a very satisfactory system.

15,177. (*Sir Purshotamdas Thakurdas.*) You would prefer that in preference to a gold exchange standard?—Yes, subject to the consideration of cost, but I do not think it is necessary for a country which does not have large deposits of foreign funds and which regularly has a favourable trade balance to acquire a very large stock of gold for that purpose. I think the organisation responsible should be prepared to give its currency for gold—to buy gold bullion if it is imported or sell it if wanted—at the parity. You have got to provide for a free movement of capital from one country to another.

15,178. Free movement of gold—inflow and outflow?—Yes, gold is the most liquid form of capital.

15,179. In paragraph 29 you say you do not believe that the countries of Europe will ever go back to the use of gold coins?—That is so.

15,180. You wind up that paragraph by saying that gold coin has become a rarity in any part of the United States. May I ask how, in your opinion, a suggestion that gold should be prohibited by Statute from circulating as a coin in, say, the United States of America would be received by the people of America?—A Statute to prevent gold from circulating?

15,181. Let me explain it a little further. The people do not avail themselves of gold coins because they are satisfied there is gold in the State Treasury, and that all their paper currency is adequately backed by gold?—Yes.

15,182. If the Government suggested in the interests of say, rebuilding Europe on a sure basis that it was necessary for all countries statutorily to prohibit gold currency, how would the people of the United States of America receive such a suggestion? —I think everybody would wonder what was the occasion for any such Statute. If nobody wants any gold you would not need to forbid it. It would be a rather useless Statute, I think, in the United States.

15,183. Perhaps it would never pass—such a law would never pass, perhaps?—I do not see why anybody should advocate it.

15,184. Anyway, the people would not cut out gold currency by Statute, but when they are satisfied there is gold in the Treasury they do not and would not use gold coins. That is the position, is it? Now regarding your observations with regard to the development of a modern banking system in India, may I ask just for information if you could tell me how many banks existed in the United States of America before you started the Federal Reserve Banks as we see them to-day?—We had nearly as many as we have to-day.

15,185. Could you give me the approximate number of banks operating in America to-day?—I think it is about 30,000.

15,186. Before you started your Federal Reserve Banks you had a network of 30,000 private banks working on their own in America?—Yes.

15,187. You have, if I may say so, very modestly said you have little personal knowledge as to conditions in India, but you have also told us that you were a Director of the Mint, and in that position you must have come to know closely of the general financial conditions prevalent in India?—Yes.

15,188. If it happened to be approximately correct that in India to-day you have not more than 25 banks of important standing operating all over the country on a modest scale, and carrying on banking operations as they are known in the West, would you say that the starting of a central bank on the ideal lines on which you have central banks in Europe is a prime necessity for India to-day?—May I ask whether, when you speak of 25 banks, you are referring to 25 banking corporations, or does that number include their branches?

15,189. I am referring to banking corporations?—They have branches?

15,190. Yes, they would have, say, three branches each, or take whatever number you like—say, 400 branches?—Under our laws we have not been permitted, except in certain States, to have branch offices. The whole scheme has been to decentralise the banking business, to have each community supply its own banks. That has been the general policy, and that is the reason we have so many. If you go right across our border to Canada I think they have now 11 banking corporations with some 4,000 offices.

15,191. Eleven banking corporations?—Eleven banking corporations, but with some 4,000 offices.

15,192. I take it that by "offices" you mean branches?—Yes, branches where they conduct business. They have a bankers' association in Canada by which they co-operate in their policies, but I think there is a considerable discussion over there now about forming a reserve bank with the idea that it would be an advantage to have a central bank of issue. Of course, in that case the opinion of the bankers is influenced somewhat by the way they think it would affect their own establised business, but I should think that a central institution for Canada, where all these banking facilities would head up would be desirable. I speak of Canada rather than India, because I know more about it. There are only 11 banking institutions in Canada, so I do not think the small number argues against the policy.

15,193. I note you do not wish to discuss Indian conditions, but you have given us what you state to be a fairly parallel case in Canada. I do not want

to worry you with a certain aspect you do not wish very much to discuss, but let me put this question to you. If in India, as compared with 4,000 branches in Canada or 30,000 banks in the United States of America, you have, say, 50,000 Indian bankers financing the masses of India in their own way, namely, the Eastern way and not on Western lines, that is, by small moneylending operations, would you consider it necessary to get the masses accustomed to the Western method of banking before starting an institution which may hit some existing institution which is developing in the direction of attracting the people to banking in the Western way?—Well, I think you rather confirm me in my view that I had better not discuss the internal conditions in India.

15,194. I will then have to leave it at that. You say, in paragraph 34, that India looms large before the world, and in reply, to Sir Rajendranath Mookerjee, you said that India loomed large before the world in this connection because of the new scheme, of which you have heard, and which you have so fully criticised this morning. If that scheme was not seriously under consideration, would you say that India loomed large in the problem the world has to solve?—Do you mean, was involved in the problem?

15,195. Yes. Supposing the scheme you were supplied a copy of was not at all before the Commission, or was not seriously under consideration, would you still say the question of India loomed large in the reconstruction of the world from the point of view of finance?—I think the question of the amount of gold that India will take out of the annual production is a very important question to the rest of the world at this juncture.

15,196. The normal gold that India will take for purposes of social and other traditional use, you think, makes India loom large?—Well, India took last year 200,000,000 dollars' worth of gold—I think in dollars, you know. It took in fact about one-half of the world's production last year.

15,197. Yes.—I do not welcome the idea, therefore, that they may take more, and I do not welcome a plan under which they propose to take more.

15,198. I see your point. Regarding this question of the gold taken by India last year and the large amount of it, has it struck you that India is only averaging her normal takings from 1914 to 1924, and that even with the colossal amount of gold India took last year she is still within the average of pre-war imports by a few crores a year? It was only filling up the vacuum which had been caused under the circumstances which you know of, and which we need not discuss to-day.—In so far as that carries the idea that she is not likely to take so much in the future, I welcome the suggestion. I hope she is not going to.

15,199. Your whole point, then, appears to me to be this, that India should not aim at taking a large amount for a special purpose?—Yes.

15,200. Which purpose may be achieved by smaller steps?—Yes.

15,201. On more normal lines?—Yes.

15,202. And to which you would not object at all?—That is what I mean.

15,203. I wish to ask just one question, more for my information than anything else. Please do not regard it as a criticism of anything you have said. You have told the Commission in your statement that the United States of America has no spare gold, or has gold which is approximately necessary for her requirements?—Yes.

15,204. Has the United States of America introduced gold notes since the war with 100 per cent. backing of gold instead of notes with a 40 per cent. gold backing, as used to be the case before the war?—We have a system of gold certificates.

15,205. That is what I mean.—We had that before the war as well.

15,206. But has the proportion of gold certificates become higher?—The proportion is just the same. Gold certificates are issued for an equal amount of gold deposited in the Treasury. There has been no change in that system from what it was before the war.

15,207. My question was rather this: Is the total amount of gold certificates outstanding to-day considerably higher than the total amount of gold certificates outstanding before the war?—Larger, do you mean, than the amount outstanding before the war?

15,208. Less or more. It cannot be the same, can it?—No, it changes. Those certificates are largely in the reserve banks, and serve as their gold reserve. As to the total amount of certificates outstanding, I should think that might be somewhat increased.

15,209. I mean, if there has been an increase in fact, it would have the effect of sterilising that part of the gold holding of the States, would it not?—In calculating that 8 per cent. I have taken the amount of gold itself and ignored the certificates. The certificates outstanding are included in the credit currency.

15,210. But they cover 60 per cent. more gold than the Federal Reserve notes, do they not?—I am afraid I do not get your point. If we just ignore the certificates and take the amount of gold itself as against the amount of currency and bank deposits, it does not exceed 8 per cent.

15,211. Thanks. In your opinion, the increased amount of gold certificates that you have had since the war does not make any difference in the calculation you have put before us?—No. The percentage of gold to other forms of money and to bank deposits are as I have stated.

15,212. Now, with regard to the silver aspect, may I ask whether it would upset America seriously if after, say, the next five or 10 years the Government of India found it necessary to sell some of the redundant silver in the currency locally in India? That is an absolutely domestic matter, and could not be the concern of any outside State. I mean, as long as it was sold locally and did not disturb outside markets, would not that be so?—I think silver producers will have to adjust themselves to any normal and usual and ordinary change in the consumption of silver by any country. This proposition as it stands, to sell 687,000,000 ounces, sounds like a very large order, you know.

15,213. Exactly. It is that which exasperates the whole outlook of the American public?—Yes.

15,214. The American public have reconciled themselves, in the first place, to this, that India does not need any more silver at present, and therefore it is not buying. The American public cannot expect India to buy for their sake?—No.

15,215. The American public have reconciled themselves to this in the second place, that other countries have taken to using smaller quantities of silver in their subsidiary coins. There is nothing more to say there?—Quite.

15,216. Similarly, if the Government of India find after five or seven years' experience that they have redundant silver in their currency, they would be quite justified in selling such silver locally in India?—Yes. I do not expect India to feel under any obligation—I certainly would not say she was under any obligation—to continue to take silver if she had no use for it. I only call attention to the fact that a sudden change in conditions of this kind which will violently disturb important industries inevitably creates alarm and some antagonism.

15,217. Quite. All that you would say is, do not disturb things artificially if you can help it?—Yes, that is right.

15,218. There is one remark you made in the course of your examination in regard to which I noted down your words as you said them. You said: "I still think so, but you have to have regard for the opinions of people in different parts of the country, and if they suspect you your influence with them does not have very much weight"?—Yes.

15,219. I wish to ask whether, according to the above, if the people of a country have any suspicions about any system which you or this Commission

or the Government in India wish to suggest to them, such system is bound to fail? One must evolve a system of currency which will command the confidence of the people for whom it is designed?—My statement was in relation to the organisation of the Federal Reserve system in the United States of America. I am a banker in New York, and in the Western country they had a feeling that an institution with headquarters in New York would be operated for the benefit of New York. I think they were entirely mistaken in that view. We bankers of New York are not conscious of a desire to manipulate the banking system to our interest at all. New York is the chief city of the United States because it reflects the prosperity of all that interior country, and if there is a crop failure or anything else that disturbs prosperity in the interior, we suffer from it in New York. We have a keener appreciation of that than they have; we know it is so, and we know we are interested in having a prosperous America throughout, so we do not feel that their suspicions were justified.

15,220. But in spite of all that, you did not press your point of view on them, although you were convinced it was right?—We pressed it strongly enough, but they outvoted us.

15,221. If it is a question of voting, then confidence goes with the system which is approved on votes, does it not? But where it is not a question of voting only you would like certainly to be a party to something which would inspire the confidence of the people?—I think it is very desirable that there should be confidence, of course, especially so in matters affecting a monetary or banking system.

15,222. (*Chairman.*) One of the issues before us is as to whether the time has come at which it is prudent now to fix the actual ratio for the standardisation of the gold value of the rupee. In order to decide whether it is prudent now to fix the actual ratio at which the gold value of the rupee is to be stabilised, it is necessary to consider whether it is possible to foresee any factor likely to create a great upset in gold values and gold prices in the world, because it is argued that if there may be such a great disturbance to gold prices ahead it might be prudent for India to postpone the actual stabilisation ratio of the rupee. It is suggested to us in evidence that one such factor that should be taken into consideration is this matter to which we have already referred, of a gold holding in the United States. The argument is put in this way. It is said that there is an excess of unwanted gold in the United States, and that some day or other by a change of monetary policy in that country, that may be turned loose and result in a great upset in gold prices, and that that is one possibility ahead which would make it prudent to wait before stabilising the exchange value of the rupee. Now you have already given us very valuable views on this subject, but could you just carry the deduction one step further, and say whether you would draw any conclusions from what you have just told us about the position of gold reserves in the United States upon this question as to whether there is anything which would make it prudent to wait before stabilising the value of the rupee?—I do not think there is anything in the gold situation in the United States to occasion alarm or apprehension as to a sudden change of prices. There are no great reserves in the United States to be put into use. There is no likelihood of a sudden inflation to disturb prices in the United States.

15,223. Thank you very much. In the various matters which we have referred to you and the various questions we have asked you, is there anything to which you would like to return by way of further comment?—I think not. I think I have expressed myself as fully as I am able on these points in my statement and in the replies I have made, and I have nothing more in mind at the moment to say.

15,224. It only remains for me to express our very deep appreciation for your most helpful evidence to-day.—I thank you, gentlemen.

15,225. Our thanks are due to you for putting yourself to what must have been the considerable inconvenience which a visit to England must have caused you?—I have been very glad to participate, and give you my views as I hold them. I trust they may be of some service.

15,226. (*Chairman.*) They are of very great advantage.

(*The witness withdrew.*)

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# FORTY-EIGHTH DAY.

## Friday, 7th May, 1926.

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Present:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter } (*Joint Secretaries*).
Mr. A. Ayangar }

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Mr. Benjamin Strong (Governor of the Federal Reserve Bank of New York); Dr. Jacob H. Hollander (Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland); and Dr. Oliver M. W. Sprague (Professor of Banking and Finance, Harvard University, Cambridge, Mass.); accompanied by Mr. Robert B. Warren (of the Federal Reserve Bank of New York), called and examined.

15,227. (*Chairman.*) Mr. Strong, I should like in the first place to express the very high appreciation of the Commission at the fact that so eminent a citizen of the United States, accompanied by such distinguished colleagues, should have been willing to come and assist us on the subject of our inquiry to-day, undertaking for that purpose so protracted a journey and, I fear, such prolonged labours in

connection with the memoranda and the questionnaire which we have submitted to you for the benefit of your assistance. I understand that it will be convenient if you were to assist us in the first place with a general statement on the matter of our inquiry?—(*Mr. Strong.*) I was proposing to read a brief prepared statement, following which, if it entirely meets the views of the Commission, Professor Hollander will make a statement; and I hope it will also meet the views of the Commission to defer questions until his more formal statement is concluded.

15,228. (*Chairman.*) We will follow that procedure?

15,229. (*Mr. Strong.*) (i) At the outset, Mr. Chairman, permit me, on behalf of myself and my associates to express our appreciation of your invitation to appear before the Royal Commission for the purpose of discussing questions which are now being urged upon the attention of all nations. We are gratified by this evidence of your interest in the solution of problems to which possibly we can address ourselves with a common purpose. Nevertheless, when it was first intimated to me that an invitation would be sent, I hesitated to accept it, for two reasons. One was lest appearance before your Commission might be interpreted as an intrusion by an American banker in problems which may popularly be regarded as of concern primarily within the British Empire. The second reason was that I could not appear before the Commission without making reference to the adverse effects, indeed possibly the disastrous effects, of the proposals under discussion upon the American mining industry, and so give rise to the impression that the purpose of the appearance was to advance arguments in behalf of these interests, rather than to make a contribution to your work. In this light, my statements to you might indeed be regarded as special pleading and unduly coloured by the particular interests of our own industry. Our examination of the suggested plan for a gold standard, which has been the subject of considerable study and deliberation, leads to the unescapable conclusion that the Indian monetary programme is a matter of vital concern to America, not alone nor primarily as to domestic interests directly affected, but even more in the extent to which it involves international monetary relations of the United States, and especially as to our part in the world programme now gradually developing for monetary reconstruction. We have not therefore interpreted this invitation in a narrow sense, but rather have taken the liberty of construing it to be an expression of desire for co-operation in the solution of a great world problem. It is in fact our interest in this wider aspect of monetary reorganisation which justifies our appearance before the Commission. You will understand my explaining that I am not here as a representative, official or unofficial, of the American Government, nor in fact of the Feder Reserve System as a system of banks of issue, but rather in my more personal capacity as an officer of that particular Federal Reserve Bank which is charged with the duty of maintaining relations with foreign banks of issue, an institution which has already undertaken large commitments and responsibilities in connection with this general subject. It is this programme, looking forward to further co-operative effort such as India and the other nations may give, upon which we must rely for the bettering of monetary conditions throughout the world, a matter which is just now so much the concern of mankind. We shall all admit that the object of perfecting monetary systems is the achievement of a stable domestic and international purchasing power for the currency—a goal unattainable by any one party acting alone, and only possible through co-operative effort. Because a gold currency is that one which has had in the past the most stable buying power both at home and abroad, it is naturally the one we all now seek to secure. We must also agree that a great nation like India is entitled to any currency system which it can afford and maintain in stable relation with other currencies, and it is axiomatic that a nation which over the years has a favourable balance of payments can have any kind of a currency system it wants. But it is to be presumed that such a nation will desire a fiscal and banking organisation and policy capable of enabling it to operate effectively and smoothly in both the domestic and international markets.

(ii) The essential elements of a full gold standard are complete convertibility of the note issue into gold, an absolutely free gold market, an unfettered foreign exchange market, and a banking system which effectively assimilates gold imports and regulates the consequences of gold exports. Actual circulation of gold coin or its equivalent has been a usual feature of a complete gold standard, but is in no sense essential thereto, and as a constituent of the circulating medium gold coin was becoming steadily less significant in the years preceding the world war. Any material departure from these essentials is in the direction of a gold exchange standard, which passes through various stages such as a limited convertibility of the note issue into the so-called Ricardo bars, then to convertibility of the note issue by the use of cheques on gold standard countries generally, and finally to the more restricted gold exchange standard where one currency is limited to convertibility by cheque on but one other country having a gold or gold exchange standard. May I interject to say that there is always the danger of our attributing rather conventional or *pro forma* meanings to these words "gold standard" and "gold exchange standard" and "sterling exchange standard," and to express my belief that the so-called pure gold standard with a gold coin circulation in time is likely to give way, under the influence of the co-operation of banks of issue, in favour of what we now more generally describe as the gold exchange standard—a necessary consequence of the economy in tho use of gold and gold coin?

(iii) The only great nation which has a complete gold standard in every particular to-day is the United States. European countries in varying degree are now practising the gold exchange standard. The object of this statement preliminary to a discussion of the questionnaire is to express the basis of my belief that the moment is inopportune for India to adopt the full gold standard system, with circulation of gold coin or its equivalent, partly because the world is not yet capable, in my opinion, of sustaining the burden which would thus be thrown upon central bank reserves, and that therefore the attempt would fail. But this does not imply that the essential objects sought by India, especially a flexible monetary system with stable purchasing power at home and abroad, are not within her reach by methods such as are now in general operation in Europe, if made to conform to Indian customs and usages. Holding this view, it might appear from the later discussion of the questionnaire that our appearance is for no other purpose than to discourage the adoption of the specific plan submitted. This view would be quite contrary to our feelings and convictions, which dispose us rather to participate in the discussion of proposals with which we and others can heartily co-operate. Indeed, it may be that before the hearings are ended the discussion will take the more agreeable turn in the direction of a programme which, instead of inviting our criticism, will enable us to consider plans of co-operation.

(iv) As the plan submitted with the questionnaire involves consideration of a great variety of questions, some of them obscure and theoretical, in monetary and banking matters, especially in the practices of central banks, their operations and policies, in aid of our studies we have asked the assistance of Dr. Jacob H. Hollander, Professor of Political Economy at Johns Hopkins University, and Dr. Oliver M. W. Sprague, Professor of Banking and Finance at Harvard University, whose familiarity with these subjects, I am certain, will enable them to contribute

to the work of the Commission. Further, because of the questions of a technical and scientific character relating to the silver industry, we have secured the advice of two recognised authorities in mining engineering, Mr. Arthur Notman and Captain H. A. C. Jenison, whose reports* we are glad to submit to the Commission in the hope that they will exhibit what is desired in connection with this particular phase of the inquiry. This was necessary, as the silver and non-ferrous mining industry has heretofore been outside of the scope of the studies of the Federal Reserve Bank of New York. I should say, in connection with their work, that Mr. Notman is a Mining Engineer and Geologist with a favourable reputation as an authority in his subject, and that Captain Jenison is a Consulting Mining Engineer, formerly Geologist in charge of copper, United States Geological Survey, and subsequently adviser regarding the non-ferrous metal industry to the United States Senate Commission of Gold and Silver Inquiry.

(v) Mr. Chairman, the reports to which I have referred, and which we are glad to submit for the use of the Commission, have involved in their preparation access to certain confidential records from the books of various of the large mining companies in the United States, and if it should be desired to publish them as a part of the Commission's Report, I hope it will be satisfactory if we could go over them together before their publication in order to make sure that it does not involve the disclosure of confidential information. I should also ask if, prior to Professor Sprague's discussion of the matter which will follow Professor Hollander, it may be proper for us to take up the Questionnaire a little out of the order in which the subjects appear, so that Professor Sprague may lay the foundation for his statement by his specific discussion of the silver question.

15,230. (*Chairman.*) We are very much obliged to you indeed for your statement, which provides us with ample food for thought. We shall very much look forward to the opportunity of giving it more leisured consideration. Let me say at once that the invitation which was sent to you was, I think I may say on behalf of my colleagues, sent in precisely that intention and that spirit which you have described. It was sent in the deep conviction of the essential unity of the financial machinery that underlies the economic and industrial structures of all civilised countries. With regard to what promise to be the most valuable reports—to which you have referred—from mining experts, and their revision before publication, that, of course, can be done in due course, as is usual with all such documents before publication. We look forward with very great interest to the opportunity of perusing them. Your introductory observations have been so suggestive that it may well be that myself and my colleagues will like to ask you to expand any aspects of the questions to which you have referred, but perhaps it would be more convenient if we may have the opportunity of doing that after we have been able to consider your introductory observations more at leisure. I should propose, then, now to continue by asking Professor Hollander to make the general statement, to which you referred, with regard to the scheme for an Indian gold standard with gold currency which has been submitted to you for your consideration.

15,231. (*Chairman.*) Would it be convenient for you to proceed now, Professor Hollander?

15,232. (i) (*Dr. Hollander.*) Quite. I am very sensible, Mr. Chairman, of the privilege of appearing before this Commission. American economists feel a profound interest in the general matter with which you have been charged. This interest is not only a scientific concern in the possible solution of a currency problem of great complexity and of far-reaching effect, but is a more intimate sympathy, growing out of the past contacts of the Government of the United States and the Government of India in a related endeavour to establish currency stability. The United States, with a bimetallic standard, and India with a silver standard, sought in associated effort for many years to secure an international agreement looking to the stabilisation in relative value of gold and silver and to maintain for silver its historic place as a money material. Only after the failure of the Brussels Convention of 1890 had dissipated the last hope of an international agreement looking to the use of the two metals did India take, with reluctance, the final step towards a gold standard; and this action was followed almost immediately by a similar movement on the part of the Government of the United States in the repeal of the silver-purchase clause of the Sherman Act. Indeed, it is interesting to recall that when in 1897 the United States made one final attempt, in the form of the Woolcot Commission, to secure a larger monetary use for silver, India, although unable to join in the movement, was deeply interested, and gave the matter the most careful examination, and perhaps was led to an unfavourable conclusion, only or largely by the consideration that a definite step had been taken, and retreat therefrom was not practicable.

(ii) The purposes of the two countries were identical in so far as the motive was to establish the stability of a monetary system which had been greatly disturbed. The only course which seemed to lie open was a gold standard. The United States proceeded by a series of steps, not without halt or arrest, to that end. India, with an extraordinarily difficult background and a series of problems of people and of contacts, has made slower progress, but with an unchanged intention. For these reasons the eventual adoption of a gold standard by India seems entirely a familiar concept and one which in itself excites no dissent. The matter in doubt, as viewed by American economists, is as to whether this particular time and this particular way are best fitted for realising such a purpose. Just because of the long approach it seems the more desirable that when the step is taken it shall be confident and assured.

(iii) It seems to me that the criteria by which any proposal of currency revision, involving a change in monetary standard, with accompaniments of far-reaching effect at home and abroad, must be examined are three. They may be labelled timeliness, soundness and practicability. The revision must be undertaken at a time favourable to its eventual success—or certainly not highly unfavourable. It must be in accord with accredited principles of banking and currency experience, and it must not include elements of such unlikely realisation as to foredoom the project to failure.

(iv) I propose to examine the plan which has engaged you with respect to those tests. The matter of timeliness does not involve the consideration as to whether the present time is opportune for any currency change in India. This larger question would involve such considerations as to whether the present system is working badly or indifferently; as to whether its defects, if there are any, can or cannot be repaired; as to whether there is or is not any trend towards improvement; as to whether any alternative might be superior or less satisfactory, and as to whether monetary reform should be subordinated to political or social considerations. These are obvious qualifications. I propose to address myself to a much more specific question, which might be stated in this manner: Is the present a favourable time for a change from an approximate gold exchange standard, with an effective gold exchange standard as a goal, to an outright gold standard with a part-gold circulation in view?

(v) The gravity of the element of timeliness in respect to any project of currency reform can be illustrated by reverting to the economic consequences which followed a currency revision now safely in the record of monetary history, but which may be still profitably recalled. I refer to the experience of Germany half-a-century ago. As the unification of Germany became the policy of Bismarck after the

* *See* Appendices Nos. 87 and 88.

Franco-Prussian War, the abandonment of the silver standard and the adoption of a gold standard were determined upon and with it an intention to dispose of the stock of monetary silver. The unification of the German State currencies and the adoption of a gold standard were or were not entirely proper policies. Tho grave error was that the disposition of the stock of silver should have been treated as a purely national concern without regard to its world consequences. The dumping of this stock of silver in a comparatively brief term of years without any international understanding resulted in a series of monetary disturbances which may almost be described as catastrophic—the break-up of the Latin monetary union; the demonetisation of silver in the United States and a severe blow to the silver savings of India. These developments might not have been avoided; they certainly were aggravated by a monetary change undertaken without regard to wider consequences.

(vi) In the present problem, tho essence of the matter of timeliness is the requirement of a large amount of gold for the realisation of the project. Some 500 million dollars, or 100 million pounds, are required, of which 15 million is required at once, 35 million additional in the course of a year and 50 million over the succeeding nine years. Admittedly these are minima, both as to amount and as to the time in which they will be needed. Substantially more may be required, and at earlier periods, because the plan, once entered upon, I take it, must be pursued unless very grave disturbances are to be invited. The Commission has already had before it particulars of, and will presently receive, authoritative information as to the serious consequences of any such wholesale and unforeseen requisition upon the world's available gold supply. I will not venture to repeat what has been said, and certainly not to anticipate what you are hereafter to hear. It is possible, however, I think, to summarise it in the statement, to which there would probably be general assent, that at this particular time, and through the only channels practically available, the drawing into India of the amount of gold proposed can only be accomplished at the cost of insecurity to those countries which have restored their monetary standards, and at the risk of delay to those countries which are now seeking, with reasonable promise, to do so, and that this uncertainty and delay are likely to produce higher interest rates, business disturbance and economic depression, with inevitable repercussions upon the economic well-being and commercial prosperity of India.

(vii) It seems to me that post-war restoration passes inevitably through four stages—fiscal, monetary, industrial and social. These steps towards recovery are not everywhere alike in sequence or in duration, but the general law seems to obtain. The world is emerging, I take it, from the first phase, not with completeness nor with finality; but on the whole we have made important progress in the primary stage of fiscal recovery, and are at least upon the threshold of currency restoration. It would be a great pity for her immediate domestic concerns and for her part and interest in world recovery if India should, by any inopportune attempt, delay and possibly impede this process.

(viii) Quite apart from the matter of timeliness as a test of any currency proposal, and perhaps precedent thereto, is the consideration of soundness. The particular plan which has been submitted for examination is, I take it, so familiar to the Commission that I need not attempt to summarise it. Let me say, however, that there is a possibility of misunderstanding some of its particulars in criticising it. The summary is necessarily brief, and perhaps I have misunderstood parts of it. The other consideration is that any plan may be made to work by a process of forcing and enlargement and modification. Taking it, however, as it stands, and as I understand it, certain essential features invite criticism. The first of these is the automatic precision of the plan—the absence of leeway or margin. Where exact knowledge of facts and conduct exists such close correspondence is possible, and even desirable, on the score of economy. Where it does not exist, to assume precise and exact measurement is insecure. It may not be treating the matter too lightly to suggest as a parallel an undertaking to provide a garment with conjectural estimates as to certain measurements and with a supply of material not in excess of such estimates.

(ix) May I illustrate this as to the plan in two particulars? The first is as to the immediate gold requirement which the plan involves for the conversion of presented rupees now in the savings of the people of India. It is estimated that the maximum number of rupees now outstanding is 350 crores, of which 150 crores will continue to be required for circulation, 90 crores are in the Government's currency reserve, and 110 crores may be presented for conversion. It is impossible for me to pass upon the correctness of these estimates. I have no doubt they are made with great care and are within the maximum possibilities of estimate. Inevitably, however, there are uncertainties attending it. We become more confident in passing to the conversion rather than to the aggregates. Of the 110 crores liable for conversion into gold bars only 50, it is assumed, will be presented forthwith. To do this the proceeds of a loan of 15 million sterling, and all the gold in the currency reserve—about 30 crores—will be required, leaving the reserve bare of gold for the time. No provision is made for the contingency that more than 50 of these 110 crores may be immediately presented for conversion into bars, nor that any of the outstanding currency notes, if these are regarded as convertible, may be presented at this time. Presumably as legal tender or as notes convertible into silver they might be so presented. During the first year 35 million sterling more is to be borrowed, but this will just provide the 30 per cent. gold cover for the new bank issue, assuming no note conversion depletes this gold cover. Only the proceeds of the first year's quota of silver sales, 73 million ounces, is to provide for additional rupee conversion of saved rupees.

(x) The second illustration of this mathematically precise adjustment has to do with the estimated proceeds from the sales of silver. Two hundred crores must be sold in a period of 10 years at the rate of 20 crores a year at not less than 24 pence an ounce. This schedule seems to be a vital and indispensable part of the scheme. In the succeeding testimony the matter of the price of silver will be considered in detail, but the assumption that this amount of silver can be sold at this price, and that an absorption will continue regularly with this as the minimum, injects into the proposal an element of such disturbing uncertainty as to impair the soundness of the plan. Some measure of uncertainty must attend a commodity sale, but to make the success of the plan—indeed, to make the plan rely on it to the extent of breakdown, should the contrary be the case, is an exceedingly grave risk.

(xi.) The second general point of criticism has to do with the matter of parity. Indian currency at present, whatever criticism may be directed against it, has the virtue of uniformity. Rupees and currency notes are interchangeable, and this fact presents one of the desirable elements in internal currency. The proposed plan displaces a uniform or unified currency by a varied or variagated currency. Different conditions seem to be presented at different stages. At the inception of the project we are to have rupees and bank notes ultimately convertible into gold, but for the time, inconvertible. If they are converted into bars as rupees, then an additional gold demand is made, for which no provision had been made. At the second stage rupees will continue in circulation, together with bank notes, and presumably some amount of gold coin; but the bank notes are left in an ambiguous position in that their convertibility is to occur only at such times as gold provision therefor exists. Either an alternating

period of conversion and non-conversion is presented or a further accumulation of gold must be arranged or the metallic cover of the bank must be exposed. Finally, upon the completion of the project, rupees in large amount are to remain in circulation of limited legal tender, together with bank notes convertible into gold, and an amount of gold coin. The question of preserving parity between constituents thus becomes an additional element of difficulty in the plan. A country circumstanced as India has quite enough to do in maintaining the gold standard. If, in addition to the maintenance of the standard as such, there is the further problem of maintaining parity between the constituents of the currency, an additional burden is assumed. This burden is real, whether it be a formal provision of the system or whether it be only a policy; I mean to say the gold standard implies the necessity, whether it be set forth in law or merely in administration, that the constituents of the currency be maintained at parity. The existence of this great stock of 150 crores of rupees of limited legal tender quality practically leaves India with a vast supply of subsidiary or token currency. The ordinary principle of token currency. The ordinary absorb only an amount adjusted to its requirements. If more than this amount is present it is ordinarily redeemed by the Government. If it is not redeemed it inevitably goes to discount. So either the amount must be not in excess of the absorbtive power for this limited legal tender currency or a condition of disturbed parity exists, imposing upon the Government the necessity for maintaining convertibility between the constituent elements of its currency.

(xii.) The third comment has to do with the factor of costliness. One of the penalties of a gold standard with gold in circulation as against a gold exchange standard is its greater cost. But India presents a further factor. The passage to a gold standard with gold circulation involves not only the use of a more costly money material but drags with it the necessity of converting into this costly material a great mass of non-circulating money. The plan estimates the annual cost during the transition as 1¾ crores; thereafter, as one crore. Here again these estimates have doubtless been prepared with care, and I cannot question them. But no allowance is made for the possibility of further and intermediate borrowings. If more gold is needed, or if silver falls below 24d.—and as I have stated these are imminently likely developments—the cost of the system would, of course, increase correspondingly. Barring the gold in the currency reserve to be used forthwith, and the realisation proceeds of the silver and the sale of securities in the exchange reserves no further resources seem to be available. Further borrowing would increase the cost, and would mean increased taxes or reduced expenditures. It is an indulgence which may be justified but for which a price must be paid.

(xiii.) Finally, and perhaps the most important consideration, is the grave social injustice, unrecorded but real, which the proposal threatens to impose upon a great part of the people of India by a fall in the world price of silver. If the fall be as estimated to 24d., a great injury is done, and if it falls below, an even more severe injury is done. This may affect the unredeemed rupees ultimately divested of full legal tender quality. There may be some question as to this consequence in view of the limited legal tender quality. But certainly no doubt exists with respect to the effect upon the great savings in uncoined silver. It seems to me that monetary discussion has here permitted a term to fashion a concept. The use of the word "hoard" as applied to these stores of uncoined silver suggests an entirely different origin and purpose from that which seems correct. In reality they are savings which owe their form to immemorial tradition and practice. They are savings accumulated at the cost of denial and sacrifice and intended, as the savings of other peoples to meet contingencies of illness, old age or economic pressure. The gravity of a proposal which would further encroach upon the purchasing power of these savings, already injured by the rise in prices, presents itself to the Western mind as akin to the injuries brought about by war and post-war price inflation and the depreciation of purchasing power of the monetary unit. In the matter of savings bank deposits the cruelty inflicted upon a great body of the population at finding that the accumulations brought together over a term of years and designed definitely for relief or support have been cut into by a third or a half, as it were by an unseen hand, develops a resentment which, in my country at least, has been profound and bitter. It may be proposed to raise the domestic price of silver above the world price by an import duty, assuming that the domestic demand continues and that no further release from the domestic store of silver occurs; but I submit that this masks or postpones the injustice but does not lessen it. The Indian purchasers of silver would be buying silver at the world price plus the import duty, and the fiction encouraged of an artificial value in the way of an Indian price as compared with the real value represented by a world price. If import duties should go to the extent of prohibition, the same conditions would be established with the added difficulties of attempting to exclude a valuable metal from a wide frontier.

(xiv.) I come now to my final criterion—the practicability of the proposal. This, after all, is the determining consideration. Timeliness and soundness may, at cost, be neglected, but not practicability. Within the limits of prudent action it seems to me that this plan, or any related proposal calling for a large immediate supply of gold, is not practicable. Fifteen millions sterling are required at the inception of the plan and 35 millions additional within the first year. These amounts must be assured, together with some more or less undefined commitment as to such further aid as may be necessary because of under-estimate—all of this within the first year. The possibility of securing such an amount of gold entirely independent of the United States may be dismissed. The United States must figure in it to a greater or less degree, either as the direct source or as the indirect source from which a substantial part of this 50 millions sterling must be secured. Indirectly it involves the idea of securing gold, in the first instance, from other quarters with ultimate incidence upon the United States. The penalties and the burdens of this procedure will be discussed by Governor Strong and Professor Sprague, and I will not refer to them. As a matter of fact, the direct provision by the United States of a substantial part of the gold required seems to have been clearly designed. The questionnaire suggests that 23 millions sterling should at the outset be provided by London and 150 million dollars by New York. This is probably a minimum and without any expectation that London's quota would be transferred indirectly to New York. The plan thus seems absolutely conditional upon a large credit in the United States; and, secondly, upon this credit being realised in gold. First as to credit supply. The events of the last 10 years have made the United States in a new sense a centre of capital supply, but it is in no sense an over-supply. The domestic requirements of the United States are large and increasing. The demands of partly vacated markets are urgent—South America and elsewhere. The capital needed for European restoration and development is very great. These constitute claimants which are entirely in excess of the available fund of capital in the United States seeking investment. The policy has, accordingly, developed, even though it may not have been crystallised into a formula, and is always subject to departure by the ambitions of competitive banking, that advances of capital ought to be made by the United States for productive purposes—restoration and development; that in a rough way they should be allocated; that is, the entire series

of claimants should be kept in mind, and, finally, that they should not be overtly disadvantageous to the United States. The first and second considerations I need not discuss, but the third is all-important. The interest of the silver-producing industries in the matter has been referred to, and will be fully developed by those who are to follow me. Might I only say that the silver-producing industries are not to be dismissed as the silver interest of a generation ago. It involves no clique of rapacious monopolists. It is an extensive, highly organised group of industries embracing almost the whole range of non-ferrous metal production extending over an important area of the United States, with much influence and with strong legislative representation. It involves a wide distribution of securities extensively owned by individuals and institutions, and its relation to public sentiment is not that of a monopolistic group, but of a valued and highly regarded phase of American productive energy. No administration, I believe, could resist public outcry against an Indian credit which, in the first place, would seem not to fit into the programme of productive use of American capital and which would be interpreted as hostile, perhaps fatal, to a great American industry affecting a wide area. That, Sir, is presented to you as merely an expression of opinion, and the evidence and warrant therefor will be developed by those who follow me. There is danger not only in the failure of such an attempt, but in the wider consequences in the form of a discouragement of, or even an outright prohibition of, further foreign flotations. Such possibilities may very well disturb those who believe in the opportunities and responsibilities of American capital in world restoration.

(xv). The foregoing takes on greater force in the light of the fact that the proposed credits are to be realised in gold. Here, again, there is danger of misapprehension as to an excessive gold supply in the United States. At the beginning of the War there was a mobilisation of reserves in the United States. The War and the post-War developments brought a great flow of gold into the United States, and for a time gold inflation and price inflation were upon us and further effects of this kind were threatened. But the policies of the Federal Reserve Board developed to meet the situation, and the gold supply of the United States is now definitely integrated into our currency system. Moreover the United States is prepared to meet the contingency of a further influx without anything of that necessity of yielding to the compulsion of a gold flood which has been so vehemently set forth in economic quarters in this country. Now with this process of setting our house in order, has developed a doctrine of what might be certainly described as "trusteeship." It is not a matter of public expression perhaps, but is in a way the purpose of those responsible for financial administration, namely, that this gold is to be retained by the United States at the expense that it entails until it can be used for the purpose of restoration and development of a post-War world. I am not connected with the Federal Reserve System, and can perhaps express an opinion with greater freedem than those who are to follow me. This opinion is that even if the Federal Reserve System were so disposed (which I feel confident it is not) public opinion would resent, and Government would discourage, any diversion of gold from the United States for a purpose which is contrary to trusteeship, and which is disadvantageous—or would be so regarded—to the people of India, and which is hurtful to the United States.

(xvi) My statement should end at this point. I hope it may not be deemed gratuitous if I add a final sentence. American economic opinion has the deepest sympathy with the purpose of the people of India to provide themselves with a stable monetary system. It believes that this purpose can be realised in a currency plan for India fashioned in accord with its historic background, its social life, its business habits and, above all, designed to conserve the economic wellbeing of its people. It hopes that this enterprise will be ventured at a time which will enable India to contribute her part to the return of world stability, instead of perhaps delaying it. It desires that no attempt should be made of a kind foredoomed to failure, by reliance upon what must be regarded as impossible elements. Such an undertaking American economists, if I may venture to speak for them, will not only admire but in their small way will endeavour to aid in bringing about.

15,233. Professor Hollander, we are very much indebted to you for your lucid and comprehensive statement. If I may, I would propose to deal with it in the same way as Mr. Strong's opening observation, namely, to take the opportunity of considering it when the transcript is circulated in order to ascertain whether there are any points which I or my colleagues might like to ask you further to explain. I think it would be most convenient to yourself, and most profitable to ourselves, if we had that opportunity before we go into any matters which may seem to call for further exposition. Would that be convenient to you?—Entirely so.

15,234. Then perhaps we may now proceed to the development of the evidence-in-chief. I understand that it will now be convenient to ask Professor Sprague to deal with some of those questions which have been put before you in the questionnaire. I understand, Professor Sprague, that you desire to suggest a different order from that in which we put the questions?—(*Dr. Sprague.*) I should prefer to take up the questions relating to silver before taking up those relating to gold.

15,235. If you please. Let me add also that these questions are drafted in order to give the fullest opportunity to anybody who is considering the matter to express his opinions on such aspects of the question as he thinks would be to the best advantage. Therefore I do not want to take you into any questions with which you cannot deal with advantage?—May I suggest as a preliminary that it might perhaps be an advantage, for the purposes of your records, that there should be read a summary statement of the reports of our two technical advisers relating to silver. I think that would facilitate the understanding of what I may say in reply to the various questions relating to silver, and would probably enable me to make my statement in a much shorter compass.

15,236. Yes; these are the statements to which Mr. Strong referred in his opening?—Yes. We have a summary of those statements which we should like to have read and inserted in the record at this stage.

15,237. I think that would be very useful indeed, and would bring our minds to the subject?—Perhaps you will allow Mr. Warren to read the summary. (*Mr. Strong.*) This summary has necessitated the use of some Tables and Charts which cannot very well be read, and if there are any questions in regard to the Tables to which Mr. Warren will refer we can answer those as the statement is being read.

15,238. (*Mr. Warren.*) (i) These are summary results prepared by Dr. W. Randolph Burgess of the Federal Reserve Bank of New York and based upon the separate reports* submitted by Mr. Arthur Notman and Captain H. A. C. Jenison which were referred to in Mr. Strong's introductory statement. This is merely a summary of the detailed findings of those two reports.

## Summary of Reports Submitted by Mr. Arthur Notman and Captain H. A. C. Jenison.

Any estimates which may be made as to the effects of the proposal submitted would appear to rest upon an anlysis of silver consumption and production. Effects on price and production depend upon the nature and elasticity of consumption and production.

* *See* Appendices Nos. 87 and 88.

*Silver Production of the World (a).*

(In fine ounces.)

| — | 1915. | 1916. | 1917. | 1918. | 1919. | 1920. | 1921. | 1922. | 1923. | 1924. |
|---|---|---|---|---|---|---|---|---|---|---|
| NORTH AMERICA :— | | | | | | | | | | |
| United States ... ... ... ... ... ... | 74,961,075 | 74,414,800 | 71,740,400 | 67,810,100 | 56,682,445 | 55,361,573 | 53,052,441 | 56,240,048 | 66,163,338 | 64,221,655 |
| Canada ... ... ... ... ... ... | 26,625,960 | 25,459,700 | 22,221,300 | 21,383,979 | 16,020,657 | 13,330,357 | 13,543,198 | 18,626,439 | 18,601,744 | 20,243,846 |
| Mexico ... ... ... ... ... ... | 39,568,613 | 29,770,675 | 42,019,664 | 62,517,000 | 65,904,224 | 66,516,354 | 64,465,347 | 81,076,899 | 90,810,855 | 91,437,944 |
| Total, North America ... ... | 141,155,648 | 129,645,175 | 135,981,364 | 151,711,079 | 138,607,326 | 135,208,284 | 131,060,986 | 155,943,386 | 175,575,937 | 574,903,445 |
| CENTRAL AMERICA AND WEST INDIES ... | 2,920,496 | 2,602,500 | 2,369,500 | 2,900,000 | 2,800,000 | 2,700,000 | 2,000,000 | 2,500,000 | 3,000,000 | 3,500,000 |
| SOUTH AMERICA :— | | | | | | | | | | |
| Argentina ... ... ... ... | — | 21,300 | 29,000 | 25,000 | 25,000 | 30,000 | 25,000 | 25,000 | 30,000 | *30,000 |
| Bolivia and Chile ... ... ... ... | 3,870,065 | 4,402,100 | 4,151,600 | 4,335,000 | 4,335,000 | 4,828,086 | 5,000,000 | 8,082,700 | 8,550,317 | 9,000,000 |
| Brazil ... ... ... ... ... ... | 21,523 | 22,000 | 25,000 | 25,000 | 25,000 | 30,000 | 33,000 | 25,720 | 28,613 | 30,000 |
| Colombia ... ... ... ... ... | 351,271 | 309,400 | 325,000 | 494,331 | 494,331 | 480,000 | 500,000 | 3,150 | 3,150 | *3,000 |
| Ecuador ... ... ... ... ... | 24,655 | 30,000 | 45,000 | 40,000 | 40,000 | 35,000 | 75,000 | 75,000 | 75,000 | *75,000 |
| Peru ... ... ... ... ... ... | 9,465,764 | 10,787,000 | 10,864,400 | 9,781,734 | 9,821,729 | 9,196,282 | 9,853,910 | 13,169,765 | 18,654,362 | 18,800,000 |
| Other Countries ... ... ... ... | — | 8,500 | 11,300 | 11,000 | 12,100 | 12,000 | 13,700 | 16,850 | 13,200 | *14,000 |
| Total, South America ... ... | 13,733,278 | 15,580,300 | 15,451,300 | 14,712,065 | 14,753,160 | 14,611,368 | 15,500,610 | 21,398,185 | 27,354,642 | 27,952,000 |
| EUROPE :— | | | | | | | | | | |
| Austria-Hungary ... ... ... ... | 1,772,699 | 1,500,000 | 1,500,000 | 1,750,000 | 15,432 | 13,985 | 15,000 | 8,583 | 14,178 | |
| France ... ... ... ... ... ... | 411,552 | 482,025 | 384,835 | 272,278 | 164,222 | 321,500 | 392,873 | 347,220 | 213,025 | |
| Czechoslovakia ... ... ... ... | — | — | — | 551,780 | 580,918 | 680,069 | 703,056 | 875,187 | 900,200 | |
| Great Britain ... ... ... ... | 96,450 | 86,500 | 75,500 | 79,636 | 68,415 | 76,344 | 12,229 | 29,885 | 34,625 | |
| Germany (including Silesia) ... ... | 5,455,855 | 5,523,870 | 5,404,415 | 5,259,740 | 3,475,415 | 3,305,020 | 3,337,420 | 3,615,525 | 3,667,447 | |
| Greece ... ... ... ... ... ... | 591,464 | 350,000 | 350,000 | 175,015 | 160,000 | 220,935 | 192,900 | 184,123 | 200,000 | |
| Italy ... ... ... ... ... ... | 493,856 | 486,500 | 486,500 | 500,000 | 300,000 | 297,452 | 219,392 | 215,405 | 306,582 | |
| Norway ... ... ... ... ... ... | 382,585 | 290,250 | 292,516 | 312,016 | 341,433 | 323,172 | 202,115 | 205,760 | 297,934 | |
| Rumania ... ... ... ... ... ... | — | — | — | — | — | — | 96,450 | 62,821 | 64,300 | |
| Russia ... ... ... ... ... ... | 638,403 | 550,000 | 500,000 | 400,000 | 400,000 | 50,000 | 40,000 | 150,000 | 192,900 | |
| Serbia ... ... ... ... ... ... | — | 10,000 | 20,000 | 20,000 | 20,000 | 15,000 | 15,946 | 26,813 | 24,562 | |
| Spain and Portugal ... ... ... ... | 4,567,454 | 4,517,800 | 3,676,095 | 3,182,464 | 2,666,232 | 2,956,546 | 2,679,349 | 2,778,210 | 2,842,060 | |
| Sweden ... ... ... ... ... ... | 24,230 | 37,900 | 57,356 | 31,500 | 20,576 | 22,569 | 13,342 | 9,645 | 15,046 | |
| Turkey ... ... ... ... ... ... | 1,509,133 | 500,000 | 400,000 | 400,000 | 100,000 | 100,000 | 100,000 | 8,037 | 8,037 | |
| Total, Europe ... ... ... | 15,943,681 | 14,334,345 | 13,147,217 | 12,937,429 | 8,312,643 | 8,382,592 | 8,070,072 | 8,517,214 | 8,780,896 | *10,000,000 |
| OCEANIA — | | | | | | | | | | |
| New South Wales ... ... ... ... | 7,012,257 | 8,107,892 | 8,545,979 | 9,259,961 | 6,304,818 | 675,332 | 4,241,890 | 9,912,927 | 12,067,954 | |
| Queensland ... ... ... ... ... | 239,748 | 243,084 | 241,639 | 152,499 | 92,048 | 274,235 | 195,328 | 273,036 | 469,302 | |
| Victoria ... ... ... ... ... ... | 16,514 | 32,300 | 7,669 | 6,333 | 6,121 | 6,231 | 5,204 | 6,978 | 6,304 | |
| New Zealand ... ... ... ... ... | 957,541 | 786,500 | 787,152 | 879,383 | 453,561 | 454,000 | 454,000 | 376,000 | 514,655 | |
| Tasmania ... ... ... ... ... | 342,770 | 331,216 | 284,510 | 294,396 | 525,343 | 623,359 | 348,658 | 794,585 | 638,602 | |
| Other States ... ... ... ... ... | 224,621 | 176,439 | 223,900 | 111,438 | 223,893 | 131,697 | 117,600 | 121,208 | 109,048 | |
| Total, Oceania ... ... ... | 8,793,451 | 9,677,431 | 10,090,849 | 10,704,010 | 7,605,784 | 2,164,854 | 5,362,680 | 11,484,734 | 13,805,865 | 11,000,000 |
| ASIA :— | | | | | | | | | | |
| India ... ... ... ... ... ... | 285,387 | 760,374 | 1,581,838 | 1,971,783 | 2,165,606 | 2,906,397 | 3,587,587 | 4,244,304 | 4,863,066 | 5,800,000 |
| China ... ... ... ... ... ... | 18,230 | 30,000 | 63,400 | 70,009 | 65,000 | 50,000 | 40,000 | 100,000 | 100,000 | *100,000 |
| Chosen (Korea) ... ... ... ... | 21,897 | 25,000 | 26,500 | 26,000 | 20,000 | 1,200 | 2,958 | 10,835 | 39,281 | *40,000 |
| Dutch East Indies ... ... ... ... | 400,000 | 400,000 | 400,000 | 1,286,000 | 1,006,842 | 1,027,956 | 1,021,994 | 1,109,657 | 1,408,973 | *1,500,000 |
| Japan ... ... ... ... ... ... | 5,117,589 | 5,805,700 | 7,108,590 | 6,596,618 | 5,160,070 | 4,889,540 | 4,185,504 | 3,886,301 | 3,554,750 | 3,534,943 |
| Other Countries ... ... ... ... | 48,709 | 48,700 | 40,600 | 27,900 | 32,269 | 25,179 | 29,962 | 23,890 | 23,437 | *25,000 |
| Total, Asia ... ... ... ... | 5,891,812 | 7,069,774 | 9,220,928 | 9,978,301 | 8,449,787 | 8,900,272 | 8,868,005 | 9,374,987 | 9,989,507 | 10,999,943 |
| AFRICA :— | | | | | | | | | | |
| Algeria ... ... ... ... ... ... | — | — | — | 170,813 | 170,813 | 150,000 | — | — | — | — |
| Belgian Congo ... ... ... ... ... | 4,770 | 11,000 | 10,300 | 10,500 | 10,000 | 10,674 | 5,819 | 6,559 | 8,745 | *9,000 |
| Rhodesia .. ... ... ... ... ... | 185,233 | 200,700 | 212,000 | 175,722 | 180,591 | 164,865 | 161,383 | 179,399 | 161,492 | 166,675 |
| Transvaal, Cape Colony and Natal ... ... | 996,379 | 968,900 | 938,100 | 877,500 | 891,304 | 892,593 | 830,329 | 1,115,676 | 1,373,930 | 1,399,626 |
| Other Countries ... ... ... ... | 1,657 | 22,400 | 22,100 | 21,980 | 18,986 | 15,116 | 13,362 | 13,362 | 1,000 | *5,000 |
| Total, Africa ... ... ... ... | 1,188,039 | 1,203,000 | 1,182,500 | 1,256,515 | 1,271,694 | 1,233,248 | 1,010,893 | 1,314,996 | 1,545,167 | 1,580,301 |
| Total for World ... ... ... | 189,626,405 | 180,112,525 | 187,443,658 | 204,199,399 | 181,800,394 | 173,200,618 | 171,873,246 | 210,533,502 | 240,052,014 | 240,935,689 |

(a) The basis of this table is the information published by the Director of the Mint. However, revisions and additions have been made so that the totals do not agree with the Mint figures. For 1924 the figures are based on actual reports or reliable estimates, except where the asterisk is used indicating that the figure is conjectural.

TABLE 8.

*Estimated Silver Consumption.*

(In millions of fine ounces).

(Net export).

| Year. | China. | India. | England. | France. | Germany. | Belgium. | U.S. | Other. | Production. |
|---|---|---|---|---|---|---|---|---|---|
| 1900 ... | — | 49 | 2 | — | 2 | 4 | — | 117 | 174 |
| 1901 ... | — | 39 | 4 | — | 2 | 1 | — | 129 | 173 |
| 1902 ... | — | 43 | 9 | — | 1 | 1 | — | 109 | 163 |
| 1903 ... | — | 79 | 11 | 7 | ·1 | 2 | — | 69 | 168 |
| 1904 ... | — | 74 | 13 | — | ·3 | 1 | — | 76 | 164 |
| 1905 ... | — | 84 | 13 | 1 | ·3 | 2 | — | 72 | 172 |
| 1906 ... | — | 118 | 11 | — | ·1 | 8 | — | 28 | 165 |
| 1907 ... | — | 98 | 7 | 40 | 1 | 11 | — | 27 | 184 |
| 1908 ... | — | 74 | 28 | — | 1 | 8 | — | 92 | 203 |
| 1909 ... | — | 61 | 9 | 6 | 5 | 6 | — | 125 | 212 |
| 1910 ... | 26 | 55 | —27 | — | 3 | 16 | — | 149 | 222 |
| 1911 ... | 46 | 32 | 24 | 19 | 4 | 13 | — | 88 | 226 |
| 1912 ... | 23 | 91 | 13 | — | 2 | 30 | — | 72 | 231 |
| 1913 ... | 44 | 71 | 13 | 10 | 2 | 39 | — | 31 | 210 |
| 1914 ... | —17 | 56 | —10 | — | — | — | 25 | 118 | 172 |
| 1915 ... | —22 | 33 | —29 | 20 | — | — | 24 | 147 | 173 |
| 1916 ... | —35 | 92 | —20 | 19 | — | — | 23 | 102 | 181 |
| 1917 ... | —26 | 75 | — | 15 | — | — | 28 | 95 | 187 |
| 1918 ... | 29 | 137 | — | 6 | — | — | —66 | 98 | 204 |
| 1919 ... | 65 | 71 | — | 9 | — | — | —77 | 114 | 182 |
| 1920 ... | 113 | 4 | 4 | — | — | 1 | 29 | 22 | 173 |
| 1921 ... | 40 | 54 | 9 | — | — | 1 | 47 | 21 | 172 |
| 1922 ... | 48 | 68 | 18 | 8 | — | 1 | 48 | 23 | 214 |
| 1923 ... | 76 | 93 | 12 | 11 | 4 | 3 | 49 | 2 | 246 |
| 1924 ... | 32 | 87 | — 9 | 11 | 7 | 7 | 53 | 51 | 239 |
| 1925 ... | — | 142 | — | — | — | — | — | — | 240 |

*Sources:*—

*China*: 1900-1910.—Commerce Reports (supplement), No. 140; 1910-24, League of Nations, Balance of Payments, 1910-24, vol. II.

*India*: 1900-1918.—Statistics British India, ninth issue, vol. II; 1918-24, Bureau of Metal Statistics.

*England*: 1900-1923.—Gold and Silver Inquiry, p. 143; 1924-25, Trade and Navigation, Sec. 1925, p. 255.

*France*: 1900-1923.—Gold and Silver Inquiry, p. 150, 1924, League of Nations.

*Germany*: 1900-1910.—Statistical Abstract Foreign Countries, No. 39, p. 97; 1910-24, League of Nations, Balance of Payments.

*Belgium*: 1900-1910.—European Currency and Finance, Serial 9; 1910-24, League of Nations Balance of Payments.

*United States*.—Gold and Silver Inquiry, Serial 3; Director of the Mint; American Bureau Metal Statistics.

.*World Production*.—American Bureau of Metal Statistics; Director of the Mint.

*Other*.—(World Production)—(Net Imports), (Net Exports).

(ii) *Silver Consumption*.—As the table of silver consumption indicates, India is by far the largest of the world's consumers of silver, and in recent years has taken between one-third and one-half of the total world's production of silver. The next largest consumers are the United States, China and France, and the balance of the world's consumption is widely scattered among different nations.

(iii) An important factor in the consumption of silver in recent years has been the reduction in the amount of silver used for monetary purposes, as is indicated by the following list of recent events:—

1917—*Costa Rica*.—Reduced silver content in pieces of 1/2, 1/4, 1/10 and 1/20 colones from 0·900 to 0·500, and provided for new coins of the stipulated parity.

1918 and 1920—*Straits Settlements*.—In 1918, 5, 10 and 20 cent coins reduced from 0·600 to 5·400, and in 1920 the dollar and 50 cent pieces were reduced from 0·900 to 5·500 fineness.

1919—*Chile*.—Reduced fineness of peso from 0·720 to 0·500, and subsidiary coins from 0·450 to 0·400.

1919—*Mexico*.—Reduced fineness of peso from 0·9027 to 0·720, and subsidiary coins from ·800 to ·720.

1919—*Netherlands*.—Fineness of 1 1/2 guilder piece reduced from 0·945 to 0·720.

1919—*Ceylon*.—Fineness of subsidiary pieces was reduced from 0·800 to 0·550.

1919—*Canada*.—Reduced fineness of silver coins from 0·925 to 0·800.

1920—*Great Britain*.—Fineness of silver coins current in United Kingdom and other parts of His Majesty's Dominions reduced from 0·925 to 0·500.

1920—*Siam*.—Law of 1919 reduced fineness of subsidiary silver coins from 0·800 to 0·650. A later reduction to 0·500 was repealed, and in August, 1920, the fineness of 0·650 restored.

1922—*Peru*.—New silver coins of 1 sol and 50 centavas were authorised with reduced silver content. They contain 50 per cent. of silver, 40 per cent. of copper and 10 per cent. nickel, whereas the former silver coins, now withdrawn, were of 0·900 fineness.

1922—*French Indo-China*.—Piaster remains at 0·900 fineness, but subsidiary coins (20 and 10 cent pieces) have been reduced from 0·835 to 0·680.

1922—*Japan*.—Fineness of subsidiary silver coins reduced from 0·800 to 0·720. In order to meet an earlier shortage of subsidiary coins, fractional rates were issued in October, 1917. They are still in circulation, although the announced plan of Government is to withdraw them entirely and restore silver and nickel coins to circulation. Toward this end over 40 million yen were issued from October, 1922 to March, 1923.

(iv) In recent years there has been some tendency to an increase in the industrial use of silver. A limited amount is being taken for use in the motion picture industry in the form of silver nitrate. This particular use of silver, however, is limited. The use of silverware might be stimulated somewhat by a decrease in the price of silver, but in general the cost of the silver in such products is small compared with the cost of labour; so that the amount of increase in consumption in this direction is limited. At present there does not appear to be any direction in which the use of silver would be largely increased by a decrease in the price.

(v) The present status of the demand for silver may perhaps best be indicated by the recent price movement. While production is at present at about the same rate as before the war, prices have for a number of years been weak relative to the movement of prices of general commodities, as is shown by the accompanying diagram, which compares the average annual price of silver, taking 1913 as 100 per cent., with the index for all commodities of the United States Department of Labour. There is also plotted on the same diagram the group index for farm products, because that is a group of products the price of which has been the occasion for much discussion because it has been low relative to other prices. The chart indicates that the price of silver has been low not only relative to all commodities, but low relative to farm products as well, and the present price of silver is only 13 per cent. higher than in 1913 and about the same as in 1906 and 1907.

A. Computed from the Mint price.
B. Computed from the price as reported by the Director of the U.S. Mint.
C-C. As reported by the Bureau of Labor Statistics, U.S. Department of Labor.

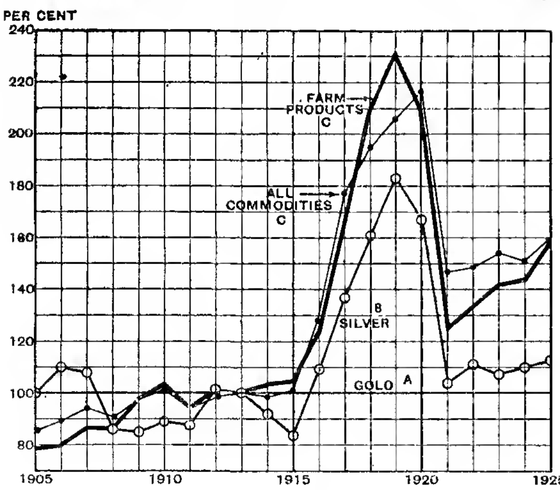


CHART 5.

*Price Indices of Gold, Silver, Farm Products and All Commodities in the United States, based on 100 in 1913.*

1905–1925.

(vi) *Silver Production.*—The second possibility is that a reduction in the demand for silver and an increase in the available supply might be accompanied by sufficient elasticity in the production to prevent too serious a price decline. It is necessary, therefore, to proceed to an examination of the world's production.

(vii) Of the 240 million fine ounces of silver produced in 1925, 176 million, or 73 per cent., were produced in North America. The balance of production is scattered widely throughout the rest of the world. The only detailed cost statistics available are for the North American companies, a large proportion of which are owned largely in the United States.

(viii) Two sources of information are available for the purpose of this report: (1) The statements of the companies producing silver, published in their annual reports or in the Year Book of the American Bureau of Metal Statistics or other hand books; and (2) a set of confidential reports on costs, which were submitted by the principal producers to the United States Senate Commission of Gold and Silver Inquiry, appointed in 1923.

(ix) A study of the published statements of the individual concerns has been made by Mr. Arthur Notman, Mining Engineer and Geologist, and his report is attached. An independent study of the confidential data submitted to the Senate Commission has been made by Mr. H. A. C. Jenison, formerly expert for that commission, and now Consulting Mining Engineer for the Guaranty Trust Company of New York, and his report is also attached. In his report it has been necessary to conceal the names of the companies because the data were obtained under conditions that they would be kept confidential. No summary of these data has heretofore been available.

(x) For a detailed study of the effects on the mining industry in the United States, Mexico and Canada, reference may be made to these reports, but their findings may be summarised briefly here.

(xi) The nature of silver production in the United States is shown in the following table* and diagram. About one-third of the production is from dry and siliceous ores, the major product of which is silver, although there is also a by-product of gold which is an important element in the yield of a number of the mines. The other two-thirds of the country's silver production is a by-product of the mining of copper and lead, with the exception of about 6½ million ounces, which is derived from zinc ores and complex ores. No such precise division of production into typos is available for the silver produced elsewhere in the world than in the United States, but it may reasonably be assumed that the production in Mexico shows a somewhat similar distribution between types. The effects of price changes on silver production under three classifications may be commented upon as follows:—

* The table is not reproduced here, but is printed as Table 1 to Appendix No. 88.

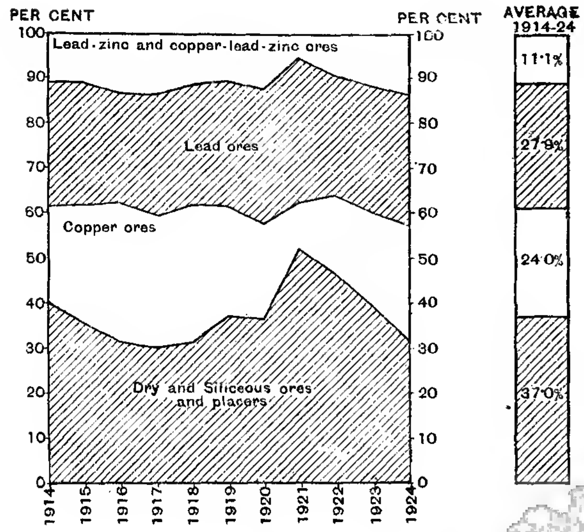


CHART 6.

*Percentages of Mine Production of Silver in the United States derived from Principal Classes of Ores,* 1914–1924.

(xii) *Dry and Siliceous Ores.*—For the principal companies producing silver from dry and siliceous ores in the United States, Canada, Central America and Mexico, the cost of producing silver ranges from 21 to 58 cents an ounce, before making any allowance for bond interest and depletion. We may reasonably assume that these silver producers would continue production at about the present rate until the price of silver was very close to the cost of mining it, even before bond interest and depletion. There is a large amount of money invested in these mines and abandoning them would be very expensive, so that they would probably be operated, even at a slight loss, for a number of years. On this assumption these producers would continue to produce about the same amount of silver until the price fell to something like 50 cents. At that point about 16 per cent. of the production would become unprofitable. From that point downward a rapidly increasing proportion of the mines would become unprofitable about as follows:—

| *Price of silver.* | *Output unprofitable.* |
|---|---|
| 50 cents ... ... ... | 16 per cent. |
| 33⅓ ,, ... ... ... | 80 ,, |
| 10 ,, ... ... ... | 100 ,, |

It would still remain true that a number of these companies whose operations were unprofitable might continue to produce silver for some years, although the restriction of operations would probably begin as soon as the price became unprofitable. The process would be an immediate curtailment of profits, followed by a gradual decrease in production, with accompanying unemployment.

(xiii) *Copper-Silver Ores.*—About three quarters of the total production of silver in the western hemisphere is a by-product of the production of copper, lead and zinc, and mostly of copper and lead. In the case of the copper industry, about 40 per cent. of the total production of copper in the United States, and probably in the world as well, has a substantial by-product of silver; the other 60 per cent. of the copper industry is practically independent of silver. Concerning the 40 per cent. of the copper industry in the United States which produces by-product silver, the statement may be made broadly that the entire net income (before bond interest and depletion) of this group is almost exactly equivalent to the return on their by-product silver. If the silver were unsaleable all of the net income of this group of mines would be eliminated. As the price of silver is reduced their profits are reduced in proportion, if the price of copper is constant. There is, however, a considerable variation between the costs of individual mines in this group. There are fortunately available complete figures for the production costs of this 40 per cent. of the copper production in the United States. The following table shows the percentage of silver production in this group which would become unprofitable at successive reductions in the price of silver, assuming a constant price of copper:—

| *Price of silver.* | *Output unprofitable.* |
|---|---|
| 50 cents ... ... ... | 26 per cent. |
| 33⅓ ,, ... ... ... | 80 ,, |
| 10 ,, ... ... ... | 87 ,, |

With silver at 33 cents an ounce and with copper at its present price, the return for this whole group of mines would be only $5,000,000 a year on an investment of 600 to 700 million dollars, or about ·8 per cent., and the profits of most of the producers would be completely wiped out. The detailed figures for these results are given in the reports by Mr. Notman and Mr. Jenison. Since very large amounts of capital are tied up in the copper mines producing a large by-product of silver, it seems probable that the mines would continue to be worked for some years, even with minimum profits, rather than being abandoned completely. The tendency would be for production to be gradually reduced as extraction became limited to high-grade ores. The probable outcome would be that as the price of silver decreased and certain of the copper mines gradually reduced their production, that as a consequence the price of copper would be somewhat increased. An increase of 2 cents per pound would be required to make the present production of copper profitable, with 30 cent silver. With such a rise in the price of copper, however, there would be a change in the distribution of copper production, which is difficult to predict. Probably some of the copper mines with a considerable dependence upon silver would be shut down and other mines would expand their production of copper. The closing of some of the marginal copper-silver mines would result in a failure to recover investments of perhaps 600 or 700 million dollars. There would also be some shifting in copper production from the United States to other countries.

(xiv) *Lead-silver Ores.*—The effects on production from lead-silver ores of a decrease in the price of silver would be similar in nature to the effect on production from copper-silver ores, but the effects would be larger. For the percentage of the lead industry which is in considerable measure depending on silver is 50 or 60 per cent. of the total lead production as compared with a dependence of 40 per cent. in the case of copper. Moreover, the silver credit in mining lead is a more important element than in the case of copper. For a group of 10 principal producers of lead the total net return, before bond interest and depletion, for the two years 1923 and 1924 was

$35,800,000, whereas the silver credit from this lead was $56,000,000. That is, without the silver credit not only would the entire net income of these companies be eliminated, but they would have been operating at a loss of 20 million dollars for the two years. These particular concerns in the two years produced 85 million ounces of silver, or one-sixth of the world's output of silver. The percentage of output becoming unprofitable at different prices for silver is as follows:—

| *Price.* | *Unprofitable output.* |
|---|---|
| 50 cents ... ... ... | 28 per cent. |
| 33⅓ ,, ... ... ... | 36 ,, |
| 10 ,, ... ... ... | 75 ,, |

It is clear that as the price of silver began to be reduced certain of the lead-silver mines would begin to curtail operations, but the present demand for lead is so good, and the prospective supply so limited, that the consequence would almost surely be an increase in the price of lead to compensate for the diminished silver return; so that the lead mines would continue to produce silver in something approximating the present quantity.

(xv) *Complex and Zinc Ores.*—The amount of silver produced in complex and zinc ores is now small, and is subject to similar considerations to those which have been cited above. Through the use of the new metallurgical processes these ores are becoming a more important source of the base metals. Experimentation in this direction has been facilitated by considerable silver credits.

(xvi) *Summary of Effects on Silver Production.*—It seems clear that because of the large amounts of funds now invested in silver, copper and lead mines, and the technical difficulties in closing and re-opening mines, that production would be sluggish in reflecting changes in the demand for silver. This means that the production of silver is comparatively inelastic, and that the displacement between production and consumption, which the proposals submitted involve, would mean a drastic revision in price as the first consequence of the inauguration of the plan. It seems probable that the price would go as low as 30 cents, and possibly that it would go still lower. As the price continued at or below 30 cents certain of the mines producing silver alone, or silver with small quantities of gold, would gradually diminish production. Similarly, there might be some reduction in the amount of silver produced from copper and lead ores, but this reduction would be so slow and so small, as it was partly compensated for by increases in the prices of copper and lead, as to offer no impediment to a rapid and sustaining fall in the price of silver. The following summary table* has been prepared to give a comprehensive view of the amount of silver production from all sources which would become unprofitable at successive price reductions in silver.

*Probable Percentage of Silver Production of the World made Unprofitable by Successful Decreases in the Price of Silver.*

| Price of Silver. | Dry and Siliceous Ores. | Copper-Silver Ores. | Lead-Silver Ores. | Total. |
|---|---|---|---|---|
| c./oz. | | | | |
| 50 | 16 | 26 | 28 | 20 |
| 33⅓ | 80 | 80 | 36 | 58 |
| 10 | 100 | 87 | 75 | 79 |

* This table appears also as Table 11 to Mr. Jenison's memorandum (*see* App. No. 88.).

*Probable Silver Production of the World made Unprofitable by Successive Decreases in the Price of Silver.*

*Millions of Ounces Fine.*

| Price of Silver. | Dry and Siliceous Ores. | Copper-Silver Ores. | Lead-Silver Ores. | Total. |
|---|---|---|---|---|
| c./oz. | | | | |
| 50 | 15 | 13 | 19 | 47 |
| 33⅓ | 75 | 40 | 25 | 140 |
| 10 | 94 | 44 | 52 | 190 |

Total World's Production ... ... 240
Total Silver Accounted for ... 220

The table is an estimate, and involves two primary assumptions: (1) that the concerns for which it has been possible to obtain data (which include all the important producers in the United States and many of the large producers in Mexico, South America and Canada) are typical of production in the Western hemisphere; and (2) that the comparatively small amounts of silver produced in other parts of the world than the Western hemisphere would not materially alter the relations of silver credits to total mine income. The figures which it has been possible to secure for mines in other parts of the world support this assumption.

(xvii) *Summary of Silver Effects.*—

1. It is probable that the price of silver would be at least cut in half if the proposal were put into effect.
2. This would appear to make it difficult, if not impossible, for India to market her silver at a price sufficient to obtain the gold required to redeem the rupees presented for redemption.
3. The vast store of unminted silver in Indian savings would have its purchasing power cut in half.
4. The silver mining industry in the United States, Mexico and Canada would have its profits greatly reduced, and a number of the mines would have to be abandoned in time.
5. The copper and lead industries would incur serious losses in profits; the price of copper and lead would probably increase; and there would be costly shifts in production.
6. The monetary situation in China and other silver standard countries would be seriously disturbed.

15,239. (*Chairman.*) It appears that the invaluable summary to which we have just listened contains the answers to the first three questions?—(*Dr. Sprague.*) There is one statement which I should wish to make about Question 1. In that question the enquiry is raised as to what would be the probable course of silver prices in the event of no change in the currency arrangements of India. The summary just read relates primarily to the group of questions under 2.

15,240. That is so?—The summary, however, does indicate that both the demand for silver and its supply do not tend to be subject to any influences which might be expected to bring about a decided change in its price in the absence of any change in Indian requirements. I mention this because of the particular experience of India and other countries in 1919 and 1920, when the price of silver advanced to an extraordinarily high figure, to such a point that the value of the metallic content of many silver coins was in excess of its coinage value. It does not appear to me that there is the slightest prospect of any such situation in the future, and that in shaping monetary policy it is not necessary to take such a contingency into account. Of course, if one is to attempt to devise a currency system which will meet the shock of another world war, then this is a matter

which might require consideration; but I do not consider that it is practicable to devise a currency system which can withstand a world war. It is only worth while to develop currency arrangements which will work satisfactorily on the assumption that we are to have a peaceful world in the future. Therefore, I think that you may disregard the possibility of an advance in the price of silver to, say, 45d. a ounce in formulating your monetary arrangements.

15,241. We have had put before us the following considerations: that there is no special reason why the rise and fall in the price of silver should not follow the general rise and fall in the price of other commodities and be co-ordinated to that rise and fall. In fact, silver has not risen in price in recent years to the same extent as other commodities have risen. It is said there is in this some reason to suppose that the price of silver is more likely to rise than to fall. Do you see any force in that contention?—I see little reason for anticipating a rise. I think it might be added that the same statement might be made of any one of the scores or hundreds of commodities, the prices of which are used in determining the price of silver. Each commodity is subject to particular influences which affect its price as well as to the general influences that may be affecting all prices in a given direction. If one were to select at haphazard pig-iron, cotton, or coal, or tea and jute, and silver, one would find a dispersion of prices, some of them above and some of them below our average price level. In other words, I attach no significance as regards the future course of silver prices to the fact that they happen to be below rather than above the general price level as we find it in different countries at the present time.

15,242. Eliminating Indian conditions, you are unable to specify any foreseeable situation such as might increase the demand for silver in respect of the world supply?—I know of none. (*Mr. Strong.*) May it not be that the position which by-product silver now occupies will almost certainly ensure that no such rise in value of silver would take place. So large a proportion of silver originates in these complex ores or is associated with copper and lead that a large production of silver seems to be certain so long as the world demand for lead and copper is a sustained one, and especially if there should be any rise in the price of copper or lead. As I understand the situation in lead production to-day, there is no great stock of lead in the world. There is no great expansion in the capacity of production, but there has been such a demand for lead that the price is substantially double what it was a few years ago. As to the copper production and the very large by-product of silver associated with it, we are witnessing in all parts of the world a vast development of electrical enterprise. In the United States, for example, they are now experimenting with the transmission of electrical energy over great distances on high tension lines which are stepped up, I believe, to 300,000 volts. The development of electrical science and industry would seem to point to large demands for the production of copper, and the inevitable by-product of silver which would be associated with it. If the world is to recover a normal economic development, with the shock of the war ended, I should rather look to the price of silver to be pretty well ensured against any such spectacular advance as was brought about by the war.

15,243. The circumstances to which you refer would no doubt tend to prevent the supply of silver from falling off in sympathy with a diminished demand for silver. They would also tend to produce, as you pointed out, an increase in the supply of silver irrespective of there being any increase in the demand therefor. Nevertheless, it is theoretically conceivable, is not it, that there might be such an increase in demand for silver, say, for new purposes, as to keep pace with it, and indeed, overtake the increase in the supply and thus tend to harden the market; though, as I understand from Professor Sprague's reply, to the student of the future of silver it is not possible to foresee any such increase in the demand for silver, either for existing purposes or for new purposes?—(*Dr. Sprague.*) There is one uncertainty that occurs to me, a possible large development in the demand for silver in China. I cannot think of any other sort of demand that might increase suddenly. One can imagine, with the development of the industrial arts, that new uses will be found for silver; but I should imagine that those would manifest themselves in a slowly increasing demand. Whether there are possibilities at any time in the future, of a sudden increase in the Chinese demand, I am not in a position to express an opinion; but that is the only uncertainty as to demand that occurs to me.

15,244. It has been suggested that there may be coming a possible increase in demand for silver for the subsidiary coinages of the world, and particularly that, in Europe, countries which have reduced the silver content of their subsidiary coinage, or substituted for it a coinage of a baser metal, may prefer in the future to increase the silver content, or return to a silver coinage instead of a nickel coinage. Would that be a consideration which should be taken into account?—I should think that that was a demand that would develop slowly, inasmuch as it would, after all, be only a convenience demand. Other metals serve well enough for subsidiary coinage, though there is undoubtedly some preference to return to the coins with which people were familiar years ago. But I do not think that that is an urgent need. When one takes into account the more urgent requirements confronting these various countries, I should question whether such a change would come about in such a fashion that it would put pressure on the silver market in the direction of an intense demand tending to a rapid advance in prices to anything like a level which would occasion inconvenience of the type developed in 1919 and 1920.

15,245 You have been good enough to supplement the summary in so far as it contains information to assist us in reference to Question No. 1. The summary also contains in substance the answer to Question No. 2—that is, the effect of the actual proposals as to the sale of silver upon the silver market of the world?—Yes.

15,246. Would you be so good as to supplement, in any regard which you may think fit, what has been said in the summary in that connection?—I think that the summary contains all that I had in mind regarding the questions grouped under 2 except under (*d*), and, in fact, the summary covers that, because it comes up in a subsequent question. I think I may say I have nothing further to add under 2. I should prefer to defer the answer to 4 and go on now to questions 5 and 6.

15,247. I think from the summary we can readily obtain the answers to Question 2 (*a*), (*b*), (*c*), and (*d*), and that those to Questions 3 and 4 are really deductions which we can draw ourselves from the matters of fact stated in the summary?—3 and 4 go together.

15,248. Those, I think, are simple deductions from the information conveyed in the summary?—Yes.

15,249. We can make those deductions ourselves, without crossing the t's or dotting the i's?—Yes.

15,250. Coming to No. 5, what difference would the imposition of a duty on the importation of silver into India make to the consequences which have been described?—I assume that the framer of the plan under examination anticipated that the rupees to be withdrawn and sold as silver bullion would be sold in India and not placed upon the markets of the world, since the amount of silver to be sold is not very different from the average amount of silver that has been imported into India in recent years. It was apparently also noted by the framers of the plan that possibly there might be a decline in the world price of silver below the 24d. which it was desired to secure on the sale of silver derived from

the rupee. The question, therefore, presents itself whether it would be possible to sell at 24d. a given amount of silver in India sheltered from competition by an import duty, or by a complete prohibition. I do not think that it would be possible, by means of an import duty or a prohibition, to sell any considerable amount of silver in India at a price appreciably different from the world price, whatever that might happen to be. If the demand for silver in India were almost exclusively for purposes of ornament, and silver were not acquired by the Indian people as a store of value, and as a means of saving, then it is quite possible that an import duty or prohibition might maintain the price in India far above the world price. In other words, if the demand for silver in India for non-monetary purposes is analogous to the demand for silver in England for forks and spoons, then if you keep out the silver from the rest of the world, you may maintain a higher price. But as I understand the matter, the demand for silver in India is a combined demand. The people buy silver as a store of value and for ornamental use, both uses being realised by many buyers, perhaps some buyers purchasing silver simply as a store of value and others, perhaps, buying it exclusively because of its attractiveness for ornamental reasons. I do not pretend to be able to determine the relative weight of those two factors in the mind of the Indian purchasers of silver; but if, as I believe to be the case, the store of value consideration is important, then it seems to me altogether probable that, with the adoption of this plan, large numbers of existing holders of uncoined silver who hold it as a store of value will conclude that the time is a good one for shifting their silver store of value into a gold store of value; and I should expect that the brokers representing the Indian Government, in the sales of silver would find themselves subject to competition and growing competition from Indian holders of uncoined silver desirous of unloading. If the price of silver in the world market were to remain at something like the present value of 30d. the ounce, I should not be surprised if the Indian Government could sell its rupees. If the price declines to 24d., I think that would shake the confidence of the Indian people in silver as a store of value; and if the price were, as we believe probable, in the world market to go down to 15d. an ounce, I think it is wholly unlikely that the Indian Government could sell its rupees for anything more; and I am almost willing to go so far as to guess that the decline in the price of silver might come more rapidly in India than elsewhere, and that you might find the price of 15d. in India arriving before a 15d. price had been reached in the London market.

15,251. The next question is really putting, from another point of view, considerations to which we have already referred. The average annual importation of silver into India for use in the arts, as ornaments, and for all purposes other than coinage, for the last five years was 81,000,000 fine ounces. Assuming that the effect of the proposals under consideration, with or without the imposition of an import duty, would be substantially to reduce the importation of silver into India for these purposes, what difference would that circumstance make to the consequences which you have described in reply to Questions 1, 2 and 3 above?—I have definitely assumed that importation would cease under the operations of this plan, because I do not believe it would be possible to market even an amount equivalent to the proposed melting of rupees in India under the impact of a sharply declining price in the world market. If the price in the world market declines to anything like the extent that we forecast, you will have consequent shrinkage in the Indian demand. If it does not decline, if the price remains at 30d. in the world market, in that case the import duty will be unnecessary. In other words, to summarise it, import duties and prohibitions are not devices upon which you can rely for putting this plan into effect.

15,252. Insofar as the demand for silver in India is based upon the utility of the metal as a store of value?—Quite so; that is an element of uncertainty in my evidence, and I simply raise the question.

15,253. Your answers, as I followed them, were given upon the assumption that the demand must be looked upon as a complex demand, based in part perhaps, in judging an individual case, on the purchase of silver as a store of value, and in part upon its commodity value for ornaments?—Yes.

15,254. You were not attempting in your reply to try and analyse the percentage, as between those two purposes of the desirability of the metal, in the mind of the individual Indian?—I judge that this Commission is competent to attempt an answer to that—at least I leave it with you.

15,255. Then taking No. 7, I expect we may say that the answer to No. 7 is also implicit in the facts which are given in the summary, and as amplified in your recent statements?—Yes.

15,256. That again is a matter of simple deduction from the facts which have been brought out by the summary and in your replies?—On this point I think we have gone as far into the silver question as is necessary for the presentation of what I have in mind to say relating to gold.

15,257. I imagined that would be the case. Before we pass on, is it convenient for you to deal at this point with any supplementary questions which my colleagues may wish to ask on the silver aspect? Perhaps we might clear up the silver aspect before we pass on to the gold aspect of the question?—Certainly.

15,258. (*Sir Reginald Mant.*) There is only one point that I want to make clear. I think you have quoted 45d. as an absolute maximum price for silver?—That was merely for illustrative purposes. I might have said 42d. or 48d. It just happened to be 45d. No particular significance attaches to that figure.

15,259. Importance attaches in our minds to the figure of 48d., which is calculated to be the point at which a rate of exchange of 1s. 6d. would bring the token value of the rupee on to the same level as the bullion value. If it rises above 48d. an oz., the bullion value would be greater than the token value at 1s. 6d. I only wanted to make sure that in your opinion a melting point of 48d. would provide an absolutely safe margin against that contingency?—Yes; I would put it in this way: if the price goes to 48d., I think it is quite as likely, or very nearly as likely, to go to 56d., or some other very high figure, and it would be the result of influences that none of us can foresee, that would presumably be so extraordinary that India and other countries would be obliged, and would be in process of passing all sorts of measures to meet the situation. It will be an emergency of a kind so improbable, and the nature of which is so uncertain that I do not think that one can possibly attempt to take account of it in legislation.

15,260. (*Sir Purshotamdas Thakurdas.*) You said there was no likelihood of any world war, and therefore no likelihood of any of those dangers to which the Indian currency system was exposed during the last War?—Not quite that. I am not willing to commit myself to saying that there is no likelihood of a world war again, but I do commit myself to saying that another world war would be so catastrophic in its consequences that I do not believe that in legislation in peace time we can possibly take that contingency into account. If we have another world war all sorts of financial arrangements will break down for reasons which we cannot in any adequate way foresee and provide against.

15,261. In view of the uncertainty of various factors in the world, and especially political factors, would it be desirable for any Government to curtail its commitment, if any, to pay either gold or silver coins in exchange for its paper currency?—I am not

sure of that. It would depend, I think, upon whether the Government, or whatever agency is concerned with currency, possesses the power and will to handle that currency in such a way that it will be able to meet those commitments. If I may indicate what I mean, the difference, for example, in a large way between a Government currency and a banking currency is that the bank possesses a certain means of, and is subject to, certain influences which tend to keep things in equilibrium. The bank can take such measures as an advance in the discount rate if its reserves are being depleted; whereas, a Government, if it supports a similar amount of currency with a gold or other reserve, has not that means of so directly and delicately influencing the situation. Again, a bank is less subject to fiscal consideration than a Government. There is always a danger that a Government may mix its fiscal necessities with the management of the currency. But it is the working of the currency in normal times, month by month and year by year. that seems to me to be important rather than distant contingencies that may not ever be realised. If we have a world war, whatever currency system or banking system you have will break down.

15,262. Under such circumstances the commitments of Government in virtue of its convertible paper have to be got over?—Yes.

15,263. You have to make the paper inconvertible?—Yes.

15,264. Because whether it is gold or silver in the case of any catastrophe, as a world war, either metal appreciates enormously in value even if there are means of importing?—And in a world war, without doubt the importation of gold and the importation of silver will be subject to restrictions For example, if India had had a fully working gold standard, established, say, in 1903, and it had been working smoothly and in a desirable fashion from the point of view of everybody for 10 years up to the world war, its gold standard would have broken down during the world war. You would have had currency and credit difficulties, though not perhaps of exactly the same kind as you did have; just as Sweden and Holland and various other countries had their peculiar difficulties. You cannot develop any kind of system which can stand the impact of a world war. Just what the impact would be in one country as contrasted with another perhaps one cannot say; but I can conceive that most of the difficulties which did present themselves in India during the world war under its particular monetary system, would have been experienced, or some other kind of difficulties quite as serious would have been experienced, under any other conceivable monetary system that might have been in operation at the outbreak of the War. In other words, if I may repeat myself, I might almost say it is desirable in framing a working system for the years ahead to forget the world war experience because that is so special and so extraordinary.

15,265. You said in reply to Sir Reginald Mant that you named a figure of 45d. as a sort of casual figure, and that you attached no importance to that figure because you said if it went up to 45d. it might as well go up to 56d. or even 66d. Are you in a position to give us any indication as to the foreseeable fluctuations, say, within the next 10 or 15 years under the ordinary normal peace conditions as you think the world will develop into?—It would be my guess that the price of silver will be, on the whole, rather more stable than the price of the general run of commodities, owing to the widely varying conditions under which it is produced, and also to the rather varied uses which it has. I should be inclined to guess an average price not very different, but it might be perhaps a bit lower than the present prices rather than a higher average price; but I do not feel at all confident in that.

15,266. That is your general outlook about the price of silver; it would be round about the present level, which is 29d. or 30d.?—Yes; assuming the continuance of Indian demand, and always bearing in mind the element of uncertainty that I spoke of earlier, namely, the possible Chinese demand, and as to that I am wholly in the dark.

15,267. (*Professor Coyajee.*) One question on the effects of import duty on silver. Even if it succeeded in keeping up the price of silver in India higher than abroad, that would not prevent the real national loss from the lowering of the value of silver in general. It would only transfer the loss from some individuals who hold the silver now to others who bought it later?—After the 10 years, if the Government had disposed of the silver, shall we say successfully, at 24d., I should presume the Government would be under an obligation to maintain the price at something like that level permanently. It would have made a commitment to the people in selling its silver under the shelter of an import duty which the Government would not have made if there had been an open market in silver, and the people had simply chosen to buy in a high market. But you could not open India to importations of silver after 10 years if the price in the world market were very different from that at which the Government during those 10 years had succeeded in selling the rupees.

15,268. In other words, the national loss would have been concentrated on a few parties. The loss which the nation should have borne as a result of that policy would have been concentrated on the local consumers of silver?—They would have been obliged to pay more for the silver than would have been the case if Government had sold it at a lower price, but if the Government succeeds in maintaining the price of silver indefinitely at a specially high level, no particular consumer or purchaser loses, because he can sell to some other purchaser.

15,269. That would only occur if the duty was removed?—Yes.

15,270. (*Sir Maneckji Dadabhoy.*) In discussing to-day the policy which India should adopt, as appears both from the summary of remarks on the silver question as well as from Dr. Hollander's evidence, some stress was laid on the desirability of maintaining the solidarity of the silver industry in America. It was pointed out also that the influence of the silver-producing industries is not to be underrated, as the silver interests of America are now supported by well-organised and influential capital as well as by public sentiment and strong legislation. In the summary it was also pointed out that America would view with alarm any reduction in the use of silver for monetary purposes. I would like you to enlighten me a little further on this point. How does the silver industry of America stand on a different basis from the oil industry, or the coal industry of America?—I am not sure that it does. This is only brought into the situation in connection with the proposals for a loan in the United States to secure the means of developing this plan. Now, if a proposal were brought forward in the United States for raising a large amount of capital for industrial purposes that might involve the disappearance of some important American industry, iron, oil, or what not. I doubt whether that particular loss would be regarded with favour. It is simply that it is unlikely that that would be the case with regard to other industries because most of them are engaged in producing something for which there is a growing demand with the growth of population and wealth. So that if it were a question of oil development in some foreign country I do not think exactly the same situation would present itself, for we would feel that 10 or 20 years hence there would be a much larger demand for oil than at present. But here you have the case of an industry as to which there is already a restricted demand for its product, and you are proposing something which greatly reduces that demand, not merely in India but possibly elsewhere—possibly in China. If this were the only consideration involved—if it were

clearly evident that this was a plan of great importance to the people of India, enabling them to realise something in monetary stability and further their industrial development, and was the only means of bringing that about, I think a very strong case might be made in the United States among investors, and perhaps with the Government, for sacrificing the silver industry. It is perhaps unfortunate to have introduced the silver problem at the outset, for it is by no means our only consideration, since we take definitely the position that even if the silver industry were not in question, and if we had no silver interests whatever, wo doubt whether a loan for the adoption of this particular plan would prove acceptable in the United States because of other quite distinctive monetary defects in the plan. That will be brought out a little later. It has seemed desirable to present the silver matter first, because we had the definite technical material, and because I should have found it very difficult to set forth my views about the other portions of the plan in the absence of a prior statement of its silver aspects. For example, since I take the view that probably the Indian Government might not be able to sell its rupees in India for more than 15d., that modifies very much some of the other features of the plan relating definitely to gold. If I further take the position that in the absence of further development of banking in India a complete gold standard with a gold currency will be very damaging in its working daily operations, I might reach the conclusion that a loan to further the plan in the United States was inadvisable, even though it had no effect whatever upon the silver situation. This silver matter is in a sense incidental. I am quite frank to say that in our first examination of the plan the silver factor figured very large; but as we studied the plan more in detail and considered how we thought it would work, the silver matter faded rather into the background.

15,271. (*Chairman.*) We have not yet given you an opportunity of developing your opinion on the other aspects in addition to the silver aspects?—No.

15,272. (*Sir Maneckji Dadabhoy.*) That is a new aspect which you have just now dealt with. It would be right to assume that America attaches very great importance to its silver industry?—Unquestionably.

15,273. Because it produces 73 per cent. of the world's production, and there are not competing rival markets for that metal in other parts of the world?—I think I can answer that in the affirmativo.

15,274. If India goes in for gold currency and discards her silver currency, the American silver market would naturally be affected. Would there be any difference between that policy and the discovery of more silver mines in other parts of the world, so far as the position of American industry is concerned?—It would be affected in very much the same way.

15,275. You stated, answering Sir Reginald Mant, and also in answer to the Chairman, that you must assume an advance up to 45d. or 48d., or whatever it was, per ounce, before formulating your monetary policy, that is the monetary policy for India?—Will you repeat that, because I am afraid I did not quite catch it?

15,276. I took down your statement in answer to the Chairman, and Sir Reginald Mant also developed that a little bit further. You stated we must assume an advance up to 45d. per ounce in formulating our monetary policy in India?—Quite the contrary. I said such an advance would be required to bring about a bullion value of silver in the rupee in excess of its coinage value, but that the possible danger and trouble that might be experienced, if your coins were over-valued and had a greater bullion value than their coin value, does not seem to me to be a matter of practical importance, because I am unable to see any influences at work calculated to bring about such an advance in the price of silver other than perhaps another great war; and I keep repeating that I do not think it is worth while to try to legislate with reference to the contingency of another great war. You might hit upon three or four of them, but you would not hit upon 60 or 70 other contingencies which no one can foresee.

15,277. It is not possible in the near future, at least so far as one can see, to foresee any such substantial increase in the price of silver?—I should think not.

15,278. In speaking about silver, Dr. Hollander also said that there was no monopoly about the silver industry. He said there were no monopolistic groups, or anything of that sort; but during the war silver was practically a monopoly of the United States, was not it?—Conditions were disturbed at that time in Mexico, which is one of the other large producers, and all of the silver was taken. I suppose that some of the fundamental reasons therefor have to do with the gold standard and with commerce at that time. The gold-standard countries were not ready to let go any moro of their gold than they could possibly help; and they would not have been willing to send any more gold to India than they did send, if India had been on the gold standard. They were unable to send the usual amount of imports into India because the production of commodities for civilian use was being curtailed in order to set free labour for war purposes. An abnormal Indian demand tended to be concentrated on silver as regards which there was no particular reason arising out of the war for curtailing its exportation from any European country or the United States. It just happoned that silver was one of the few commodities that the rest of the world was ready to ship where it was wanted to the full amount of available supplies. Supplies were, of course, quite inadequate to make up for the deficiency created by restricted imports of cloth and other commodities to India, and the restricted imports of gold to India. All these were special contingencies arising out of the war; and I should imagine that if you had had gold currency and no silver currency, the difficulties might have been even greater; you had a little of the vacuum filled up by silver during the war; and if you had not used silver you could not have filled it up.

15,279. That is true, but with the output of silver and the prices which America then obtained, practically the whole capital of the mines in America was realised during those four years?—The price of silver?

15,280. The price of silver and the output during those periods?—The profits were large, doubtless, in silver as they were in most other metals arising out of that situation, but I do not think that the profits in silver were nearly as much as they were in some other metals.

15,281. That may be, but it was enough, during that short period, to compensate for all the capital of the mines in America?—I could not answer that question.

15,282. You stated that 15d. per ounce may be reached in India before 15d. per ounce is reached in London. Did you express that opinion bearing in mind Indian habits and traditions, so that, owing to the fact that there is a great demand for ornaments of silver in India, if the price of silver went down, Indians would buy heavily and it would be impossible for the price to drop considerably?—I had that in mind, and I think I phrased it merely as a possibility owing to my uncertainty as to the strength of the two motives—the store of value and the ornament use. There has been a reasonable ground for supposing that the Indian uses of silver would continue as in the past, but when the Government very nearly eliminates silver for monetary use, and if there should be, as a consequence, a very great decline in price in the world market with a possible shrinkage in the Chinese demand as well, I should suppose that the effect upon the imagination of people accustomed to purchase silver in India would be very great. I do not know, but I mention it as a possibility, that the reaction against silver might be so decided, and with the possible potential supplies being so enormous in India, that it would at least

be quite intelligible if, after the price had gone down a bit in the world market it should then take a sudden tumble in India preceding an analogous decline outside. I do not know that that would take place. It is merely an hypothesis designed to illustrate the uncertainties which a cautious Government should take into account in embarking upon this plan.

15,283. I only want to bring out clearly that, when it is alleged that the price of silver will go down if there is any change in the form of currency in India and silver is sold, America should not overlook the possibilities and potentialities of the internal consumption of that silver which will be discarded as coin, since there is a great potentiality of its use in another shape?—In India?

15,284. In India?—I have supposed that there was a growing preference for gold as against silver and that although for certain ornamental uses silver is still preferred, there is an intermediate ground in which you can find evidence of some displacement of silver in favour of gold. I simply wondered whether a tendency of that sort, if it exists, might not be accentuated; or, if it does not yet exist, might develop.

15,285. (*Sir Maneckji Dadabhoy.*) But some displacement must always take place when any form of currency is changed. That is inevitable?

15,286. (*Chairman.*) I understand the force of your reply is this:—In so far as you diminish the certainty of the value of silver as a metal, people will turn to gold?—Yes. One of the most serious uncertainties of this plan as I see it is the possibility that it may lead to the accentuation of the habit of acquiring gold as a store of value. The plan seems to me to presuppose that the introduction of gold currency will tend in course of time to lessen the acquisition of gold for non-monetary purposes. That I believe to be exceedingly doubtful in the first stage, for I believe that the blow given to silver as a store of value will tend for the time being to accentuate the tendency to acquire gold; and, in the second place, I do not believe that the use of a gold currency is calculated to weaken the tendency to accumulate gold, but possibly, only to facilitate it. The habit of accumulating gold in non-monetary forms will be weakened in course of time, as doubtless is the case, to some extent, now, by the development of banking, by the spread of the habit of investment, and by the development of insurance for the benefit of oneself, or one's family, and so on. A great variety of ways or substitutes will, in course of time, no doubt tend to diminish accumulations of gold in non-monetary forms; but I do not believe that the mere use of gold currency will contribute very much in that direction, and almost nothing at all dissociated from those agencies that I have indicated.

15,287. (*Sir Maneckji Dadabhoy.*) Thank you very much. I will refer to the gold aspect of the matter later on.

(*The witnesses withdrew.*)

## FORTY-NINTH DAY.

## Monday, 10th May, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER
Mr. A. AYANGAR (*Secretaries*).

Mr. BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York); Dr. JACOB H. HOLLANDER (Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland); and Dr. OLIVER M. W. SPRAGUE (Professor of Banking and Finance, Harvard University, Cambridge, Mass.), accompanied by Mr. ROBERT B. WARREN (of the Federal Reserve Bank of New York), re-called and further examined.

15,288. (*Chairman.*) Dr. Sprague, on the last occasion we had concluded the assistance we were receiving from you on the silver aspect of this Scheme.* To-day we propose to proceed with the gold aspect of the Scheme. I understand that it will be convenient in the first place if Mr. Warren were to read to us a summary of some information which you have prepared on this aspect?—(*Dr. Sprague.*) Yes.

15,289. (*Chairman.*) Mr. Warren, will you assist us in that regard?

15,290. (*Mr. Warren.*) (i) This is a memorandum on the gold production and consumption of the world, prepared by Mr. W. Randolph Burgess, of the Federal Reserve Bank of New York.

### COMMENTS ON GOLD PRODUCTION AND CONSUMPTION.

In estimating the probable balance between the world's production and consumption of gold, the basic available facts are the production by countries in past few years and the consumption by countries. These facts are presented in the following tables as nearly as it has been possible to estimate them from the available data. The production figures are obtainable in moderately accurate form. The consumption figures have been collected from a variety of sources, and in general the computations by Mr. Joseph Kitchin have been followed for the years through 1922. These figures are supplemented in

* *i.e.*, the scheme for a gold standard with gold currency, *vide* App. 95 (B).

Table No. 2 by data giving the net imports and the exports of gold in different countries for the years since 1900. The situation with regard to the production of gold may be summarised by saying that in the past few years production has been increasing slightly, but has been 50 to 75 million dollars less than the pre-war figures. A number of the gold mines are reported as making very little profit at the present price level, and unless new gold discoveries are made there appears to be little immediate prospect of any increase in gold production beyond present figures.

TABLE 1.

*Gold Production of the World, by Countries.*

(In millions of dollars.)

| Year. | United States. | Canada. | Mexico. | Central America. | South America. | Europe. | Australasia. | Asia. | Africa. | World. |
|---|---|---|---|---|---|---|---|---|---|---|
| 1900 | 79 | 28 | 9 | 1 | 11 | 23 | 73 | 22 | 9 | 255 |
| 1901 | 79 | 24 | 10 | 1 | 12 | 25 | 77 | 25 | 9 | 262 |
| 1902 | 80 | 21 | 10 | 2 | 13 | 25 | 82 | 25 | 39 | 296 |
| 1903 | 73 | 19 | 11 | 2 | 11 | 27 | 89 | 27 | 68 | 328 |
| 1904 | 80 | 16 | 13 | 1 | 10 | 27 | 88 | 25 | 86 | 347 |
| 1905 | 88 | 15 | 16 | 2 | 11 | 25 | 86 | 25 | 113 | 380 |
| 1906 | 94 | 12 | 18 | 2 | 11 | 23 | 82 | 24 | 135 | 402 |
| 1907 | 90 | 8 | 19 | 2 | 12 | 30 | 76 | 23 | 152 | 413 |
| 1908 | 94 | 10 | 22 | 3 | 12 | 31 | 73 | 29 | 166 | 442 |
| 1909 | 100 | 9 | 24 | 3 | 11 | 36 | 71 | 29 | 171 | 454 |
| 1910 | 96 | 10 | 25 | 5 | 11 | 40 | 65 | 28 | 175 | 455 |
| 1911 | 96 | 10 | 25 | 3 | 12 | 36 | 60 | 26 | 191 | 462 |
| 1912 | 93 | 13 | 24 | 3 | 13 | 26 | 54 | 27 | 212 | 466 |
| 1913 | 89 | 16 | 19 | 3 | 12 | 31 | 53 | 29 | 207 | 459 |
| 1914 | 94 | 16 | 5 | 2 | 13 | 30 | 47 | 29 | 202 | 439 |
| 1915 | 101 | 19 | 6 | 3 | 15 | 29 | 49 | 28 | 218 | 469 |
| 1916 | 92 | 19 | 8 | 4 | 15 | 25 | 40 | 28 | 223 | 454 |
| 1917 | 84 | 15 | 9 | 3 | 14 | 19 | 34 | 27 | 214 | 420 |
| 1918 | 69 | 14 | 17 | 3 | 14 | 13 | 31 | 25 | 197 | 384 |
| 1919 | 60 | 16 | 16 | 3 | 13 | 11 | 27 | 25 | 194 | 366 |
| 1920 | 51 | 16 | 15 | 3 | 12 | 2 | 24 | 24 | 188 | 333 |
| 1921 | 50 | 19 | 14 | 2 | 14 | 2 | 19 | 22 | 187 | 330 |
| 1922 | 49 | 26 | 15 | 2 | 15 | 4 | 19 | 22 | 165 | 319 |
| 1923 | 50 | 25 | 16 | 2 | 15 | 7 | 18 | 24 | 210 | 368 |
| 1924 | 51 | 32 | 16 | 2 | 15 | 14 | 17 | 23 | 219 | 389 |
| 1925 | 49 | 36 | 16 | — | 15 | 26 | 15 | 23 | 215 | 396 |

*Sources*:
1900-1912.—Director of the Mint.
1913-1921.—Gold and Silver Inquiry, Serial 3, p. 3.
1922-1924.—Director of the Mint.
1925.—Estimated from preliminary figures of American Bureau of Metal Statistics.

TABLE No. 2.

*Net Imports or Exports of Gold for Various Countries.*

(In millions of dollars.)

*Net Import + Net Export –.*

| Year. | United States. | England. | France. | Switzerland. | Japan. |
|---|---|---|---|---|---|
| 1900 | + 13 | + 39 | + 64 | — | — |
| 1901 | — 3 | + 34 | + 55 | — | — 0·4 |
| 1902 | + 8 | + 29 | + 61 | — | + 15 |
| 1903 | + 21 | + 5 | + 36 | — | + 4 |
| 1904 | — 36 | + 5 | + 103 | — | — 50 |
| 1905 | + 3 | + 39 | + 125 | — | + 3 |
| 1906 | + 109 | + 15 | + 52 | — | + 7 |
| 1907 | + 88 | + 29 | + 56 | — | — 6 |
| 1908 | — 31 | — 19 | + 192 | — | + 7 |
| 1909 | — 89 | + 34 | + 35 | — | + 36 |
| 1910 | + 1 | + 29 | + 11 | + 11 | — 3 |
| 1911 | + 20 | + 44 | + 24 | + 8 | — 8 |
| 1912 | + 19 | + 29 | + 42 | + 10 | — 5 |
| 1913 | — 28 | + 63 | + 99 | + 6 | — 10 |
| 1914 | — 165 | + 136 | + 149 | + 10 | — 9 |
| 1915 | + 421 | — 136 | — 15 | + 3 | — 8 |
| 1916 | + 530 | — 102 | + 12 | + 23 | + 39 |
| 1917 | + 181 | — | + 15 | + 6 | + 118 |
| 1918 | + 21 | — | + 3 | + 16 | — |
| 1919 | — 292 | — | + 11 | + 11 | + 162 |
| 1920 | + 95 | — 122‡ | — 18 | + 7 | + 196 |
| 1921 | + 667 | + 19‡ | — 11 | + 19 | + 65 |
| 1922 | + 238 | — 24‡ | + 3 | + 19 | + 0·4 |
| 1923 | + 294 | — 49‡ | — 3 | + 13 | — |
| 1924 | + 258 | — 44‡ | — | — 21 | — |
| 1925 | — 134 | — 39 | — | — | — 13 |

‡ *Note of British Imports and Exports of Gold.*

The Annual Bullion Letter for 1921, issued by Samuel Montagu & Co., contains the following statement (page 11):—

"The large excess of exports over imports arises from the fact that gold entering has been usually declared at coinage value and its exit has been calculated at market value."

The official statistics for 1921 were as follows:—

| | £ |
|---|---|
| Gold Exports ... ... ... ... ... | 59,348,000 |
| Gold Imports ... ... ... ... ... | 49,676,000 |
| Excess of Imports ... ... | £9,672,000 |

According to Montagu & Co., if the imports had been taken as calculated at Mint Value and the average gold premium of the year added, the results would have been as follows:—

| | £ |
|---|---|
| Gold Imports ... ... ... ... ... | 62,691,000 |
| Gold Exports ... ... ... ... ... | 59,348,000 |
| Excess of Imports ... ... | £3,343,000 |

The Director of the Mint (Annual Report 1925, page 121) gives the average premium on gold in London as follows:—

| | Per cent. |
|---|---|
| 1920 ... ... ... | 33·2 |
| 1921 ... ... ... | 26·2 |
| 1922 ... ... ... | 10·0 |
| 1923 ... ... ... | 6·4 |
| 1924 ... ... ... | 10·5 |

By applying these percentages to the official statistics of imports, the following figures for net movement of gold are obtained:—

| | In millions of dollars. |
|---|---|
| 1920 ... ... ... | — 122 |
| 1921 ... ... ... | + 19 |
| 1922 ... ... ... | — 24 |
| 1923 ... ... ... | — 49 |
| 1924 ... ... ... | — 44 |

The official figures used as a basis for the above revisions are as follows:—

| | |
|---|---|
| 1920 ... ... ... | — 204 |
| 1921 ... ... ... | — 49 |
| 1922 ... ... ... | — 49 |
| 1923 ... ... ... | — 63 |
| 1924 ... ... ... | — 68 |

*Sources*:

*England*: 1900-1922.—Trade and Navigation of the U.K. in Gold and Silver Statistics, Serial 3, p. 143.
1923-1925.—Trade and Navigation of the U.K.

*France*: 1900-1908.—National Monetary Commission, Vol. 21, p. 347.
1909.—Statistical Abstract for Prin. and other Foreign Countries, p. 96.
1910-1923.—Documents Statistiques sur le Commerce de la France in Gold and Silver Statistics, Serial 3, p. 146.

*Switzerland*: 1910-1923.—Gold and Silver European Currency and Finance, p. 404, Serial 9.

*Japan*: 1901-1910.—Financial and Economic Annual of Japan, 1915, pp. 98-99.
1911-1924.—Financial and Economic Annual of Japan, 1925, pp. 102-3.

*Net Imports or Exports of Gold for Various Countries.*

(In Millions of Dollars.)

*Net Import* + *Net Export* –

| Year. | Germany. | India.* | Italy. |
|---|---|---|---|
| 1900 ... | + 30 | + 0·3 | – 3 |
| 1901 ... | + 49 | + 6 | – 2 |
| 1902 ... | + 8 | + 29 | + 4 |
| 1903 ... | + 45 | + 32 | + 26 |
| 1904 ... | + 86 | + 31 | + 4 |
| 1905 ... | + 35 | — | + 29 |
| 1906 ... | + 65 | + 48 | + 21 |
| 1907 ... | – 8 | + 56 | + 26 |
| 1908 ... | + 83 | + 14 | — |
| 1909 ... | + 5 | + 70 | – 5 |
| 1910 ... | + 43 | + 78 | – 3 |
| 1911 ... | + 28 | + 123 | – 2 |
| 1912 ... | + 40 | + 110 | – 3 |
| 1913 ... | – 76 | + 76 | – 5 |
| 1914 ... | — | + 25 | + 1 |
| 1915 ... | — | – 4 | + 3 |
| 1916 ... | — | + 43 | – 0·2 |
| 1917 ... | — | + 82 | — |
| 1918 ... | — | – 18 | + 0·2 |
| 1919 ... | — | + 115 | + 1 |
| 1920 ... | + 4 | + 10 | + 3 |
| 1921 ... | – 0·07 | – 14 | + 1 |
| 1922 ... | – 2 | + 200 | + 7 |
| 1923 ... | + 0·7 | + 142 | + 5 |
| 1924 ... | + 16 | + 344 | — |
| 1925 ... | + 133† | + 146 | — |
| 1926 ... | — | — | — |

* Fiscal year basis, e.g., figures for 1900 include April–December 1900 and January–March, 1901, etc.
† Increase in Reichsbank's gold holdings.

*Sources*:

*Germany*: 1900-1907.—National Monetary Commission, Vol. 21.
1908-1912.—Statistical Abstract for the Prin. and other Foreign Countries, 1901-1912, pp. 96-97.
1913, 1920-24.—League of Nations, Balance of Payments, Vol. II.

*India*: 1900-1912.—Shirras, Indian Finance and Banking.
1913-1919.—Statistics of British India, Statistics Dept., 1920.
1920-1922.—Report of the Operations of the Currency Dept., India, 1921-1922.
1923-1924.—Report of Controller of Currency, 1923-1924, p. 65.
1925-1926.—Samuel Montagu and Co.

*Italy*: 1900-1909.—Statistical Abstract for the Prin. and other Foreign Countries, 1901-1912, pp. 96-7.
1910-1923.—European Currency and Finance, Serial 9.

*Net Imports and Exports of Gold for Various Countries.*

(In thousands of dollars.)

*Net Imports* (+). *Net Exports* (–).

| Year. | Denmark. | Peru. | Portugal. | Finland. |
|---|---|---|---|---|
| 1900 ... | — | + 1,815 | — | — |
| 1901 ... | — | – 146 | — | — |
| 1902 ... | — | + 394 | — | — |
| 1903 ... | — | + 1,703 | — | — |
| 1904 ... | — | + 1,961 | — | — |
| 1905 ... | — | + 1,664 | — | — |
| 1906 ... | — | + 2,492 | — | — |
| 1907 ... | — | + 2,278 | — | — |
| 1908 ... | — | – 277 | — | — |
| 1909 ... | — | + 667 | — | — |
| 1910 ... | — | + 2,487 | — | + 708 |
| 1911 ... | — | + 1,377 | — | + 2,123 |
| 1912 ... | — | + 477 | — | + 2,093 |
| 1913 ... | — | + 331 | – 354 | + 5 |
| 1914 ... | + 6,359 | + 530 | – 461 | + 3 |
| 1915 ... | + 5,385 | + 15 | + 974 | + 2 |
| 1916 ... | + 13,963 | + 462 | + 81 | + 3 |
| 1917 ... | + 5,202 | + 13,505 | + 14 | + 4 |
| 1918 ... | + 5,091 | + 360 | + 46 | + 8 |
| 1919 ... | + 11,738 | + 1,460 | + 22 | + 3 |
| 1920 ... | + 322 | + 3,416 | + 30 | + 167 |
| 1921 ... | — | – 409 | — | + 64 |
| 1922 ... | — | – 487 | — | — |
| 1923 ... | + 2 | — | — | — |
| 1924 ... | + 32 | — | — | + 103 |
| 1925 ... | — | — | — | — |

*Sources*:—

*Denmark*: 1914-1920.—Danmarks Vare Indog—Udforsel in *Black Book.*
1923-1924.—United States Director of the Mint.

*Peru*: 1900-1909.—Statistical Abstract of Peru, 1923, p. 76.
1910-1922.—League of Nations, Balance of Payments, Vol. 11.

*Portugal*: 1913-1920.—Comerico e Navegacao, 1917, XVIII.

*Finland*: 1910-1921.—League of Nations, Balance of Payments, Vol. 11.
1923-1924.—United States Director of the Mint.

*Net Imports and Exports of Gold for Various Countries.*

(In thousands of dollars.)

*Net Imports* (+). *Net Exports* (–).

| Year. | Netherlands. | Roumania. | China. | Australia. | New Zealand. |
|---|---|---|---|---|---|
| 1910 | +11,062 | + 3,503 | — | – 15,232 | –7,928 |
| 1911 | + 2,166 | + 1,503 | — | – 48,324 | –5,285 |
| 1912 | +13,269 | – 68 | + 5,520 | – 50,967 | –6,336 |
| 1913 | + 3,069 | + 780 | – 1,012 | – 8,307 | –5,270 |
| 1914 | +17,752 | – 218 | – 8,711 | – 9,660 | –1,114 |
| 1915 | +89,890 | + 1,035 | –10,783 | – 47,726 | –5,348 |
| 1916 | — | — | + 9,323 | – 54,918 | – 857 |
| 1917 | +38,284 | — | + 9,112 | – 19,850 | –4,404 |
| 1918 | – 5,084 | — | – 1,328 | – 964 | – 204 |
| 1919 | +62,503 | + 6 | + 5,813 | – 26,819 | –6,497 |
| 1920 | – 410 | — | –21,702 | – 25,778 | –4,341 |
| 1921 | –26,212 | — | – 15 | – 16,911 | –2,973 |
| 1922 | – 9,864 | — | + 3 | – 10,711 | –2,623 |
| 1923 | – 10 | — | – 5 | — | — |
| 1924 | – 40 | — | – 9 | – 11 | – 3 |
| 1925 | — | — | — | — | — |

*Sources* :—

*Netherlands*: 1910-1922.—League of Nations, Balance of Payments, Vol. 11, page 190.
1923-1924.—United States Director of the Mint.

*Roumania*: 1910-1915.—League of Nations, Balance of Payments, Vol. 11, page 222 (also year 1919).

*China*: 1910-1922.—League of Nations, Balance of Payments, Vol. 11, page 316.
1923-1924.—United States Director of the Mint.

*Australia*: 1910-1922.—League of Nations, Balance of Payments, Vol. 11.
1924.—United States Director of the Mint.

*New Zealand*: 1910-1922.—League of Nations, Balance of Payments, Vol. 11.
1924.—United States Director of the Mint.

*Net Imports and Exports of Gold for Various Countries.*

(In thousands of dollars.)

*Net Imports* (+). *Net Exports* (−).

| Year. | Brazil. | Chile. | Egypt. | South Africa. | Argentina. |
|---|---|---|---|---|---|
| 1910... | +34,971 | — | +29,085 | — | + 34,113 |
| 1911... | +26,410 | — | — 751 | — | + 9,412 |
| 1912... | +17,120 | — | +19,016 | —183,710 | + 34,243 |
| 1913... | —23,486 | — 12 | — 7,494 | —178,975 | + 3,437 |
| 1914... | —36,134 | — 3 | —24,280 | — 96,512 | — 12,866 |
| 1915... | —25,009 | + 360 | — 3,989 | — 79,426 | + 4,047 |
| 1916... | — 706 | — 206 | — 865 | —190,426 | + 24,618 |
| 1917... | — 156 | + 5,909 | — 306 | —284,817 | + 25,412 |
| 1918... | — | +14,914 | — 168 | —163,461 | + 17,162 |
| 1919... | + 526 | + 5,058 | — 133 | —222,511 | + 31,157 |
| 1920... | + 613 | + 5,236 | + 4,612 | —155,918 | +138,176 |
| 1921... | + 29 | + 4,720 | + 64 | —165,719 | + 64 |
| 1922... | — | — | + 549 | —142,472 | + 9 |
| 1923... | | | | | |
| 1924... | | | | | |
| 1925... | | | | | |
| 1926... | | | | | |

*Sources*:—

*Brazil*: 1910-1921.—League of Nations, Balance of Payments, Vol. II.

*Chile*: 1913-1921.—League of Nations, Balance of Payments, Vol. II.

*Egypt*: 1910-1922.—League of Nations, Balance of Payments, Vol. II.

*South Africa*: 1912-1922.—League of Nations, Balance of Payments, Vol. II.

*Argentine*: 1910-1922.—League of Nations, Balance of Payments, Vol. II.

*Net Imports or Exports of Gold for Various Countries.*

(In millions of dollars.)

*Net Import* (+) *Net Export* (−).

| Year. | Belgium. | Spain. | Sweden. |
|---|---|---|---|
| 1900 ... ... | + 0·6 | — 0·1 | — |
| 1901 ... ... | — 0·8 | — 0·001 | — |
| 1902 ... ... | + 0·2 | — 0·31 | — |
| 1903 ... ... | — 1·0 | + 0·01 | — |
| 1904 ... ... | + 0·8 | + 0·02 | — |
| 1905 ... ... | — 0·6 | + 0·1 | — |
| 1906 ... ... | —11·0 | + 0·03 | — |
| 1907 ... ... | + 0·4 | + 0·09 | — |
| 1908 ... ... | — | — 0·5 | — |
| 1909 ... ... | + 0·6 | — 0·08 | — |

*Net Imports or Exports of Gold for Various Countries*—(continued).

| Year. | Belgium. | Spain. | Sweden. |
|---|---|---|---|
| 1910 ... ... | + 1·5 | + 0·07 | — |
| 1911 ... ... | +11·0 | — 0·01 | + 1 |
| 1912 ... ... | + 4·6 | + 0·2 | + 2 |
| 1913 ... ... | + 7·9 | — 0·1 | + 3 |
| 1914 ... ... | + 3·1 | + 4·9 | + 2 |
| 1915 ... ... | — | + 42·4 | + 13 |
| 1916 ... ... | — | + 68·6 | + 5 |
| 1917 ... ... | — | +114·0 | + 20 |
| 1918 ... ... | — | + 6·5 | + 9 |
| 1919 ... ... | + 0·4 | + 35·4 | — |
| 1920 ... ... | + 0·4 | + 0·5 | + 57 |
| 1921 ... ... | + 0·2 | — 0·9 | — 67 |
| 1922 ... ... | + 1·0 | + 0·5 | — 9 |
| 1923 ... ... | + 0·8 | + 0·003 | — |
| 1924 ... ... | — | — | — |
| 1925 ... ... | — | — | — |

*Sources*:—

*Belgium*: 1900-1923.—European Currency and Finance, Serial 9, p. 303.

*Spain*: 1900-1923.—European Currency and Finance, Serial 9, p. 376.

*Sweden*: 1911-1923.—European Currency and Finance, Serial 9, p. 392.

(ii) The data for gold consumption indicate that for the three years past practically all the world's gold production has been absorbed by the industrial arts and by India, and the amounts available for monetary use have been very small. It may be presumed that industrial arts will continue to absorb from 100 to 150 million dollars of gold each year. The principal unknown factors in gold consumption are (1) the consumption of India for non-monetary purposes, etc.; and (2) the demands for monetary gold by various countries of the world which are returning to monetary stability.

(iii) It seems reasonable to believe that if the present proposal were adopted her consumption of gold for non-monetary uses would be increased rather than diminished, because of the greater recognition of the value of gold; and silver imports might well be replaced by gold as silver lost some of its value.

TABLE No. 3.

*Consumption of the World's Gold Supply.*

(In Millions of Dollars.)

| Period. | World Production. | Industrial Arts. | India.* | China and Egypt. | Available for Monetary Use. | Stocks of Monetary Gold at end each Period. |
|---|---|---|---|---|---|---|
| (Yearly Average of 5-year periods.) | | | | | | |
| 1835–39 | 13·6 | 11·6 | 2·0 | — | — | 954 |
| 1840–44 | 19·4 | 12·6 | 2·0 | — | 4·8 | 978 |
| 1845–49 | 37·0 | 14·6 | 4·8 | — | 17·6 | 1,064 |
| 1850–54 | 114·8 | 15·6 | 4·8 | — | 94·4 | 1,538 |
| 1855–59 | 134·4 | 20·4 | 15·6 | — | 98·4 | 2,030 |
| 1860–64 | 121·6 | 30·2 | 34·0 | — | 57·4 | 2,317 |
| 1865–69 | 130·4 | 41·8 | 23·4 | — | 65·2 | 2,643 |
| 1870–74 | 116·8 | 56·4 | 10·8 | — | 49·6 | 2,891 |
| 1875–79 | 109·0 | 57·4 | 3·0 | 4·8 | 43·8 | 3,110 |
| 1880–84 | 101·6 | 51·6 | 18·6 | 8·8 | 22·6 | 3,223 |
| 1885–89 | 111·0 | 48·6 | 10·8 | 4·0 | 47·6 | 3,461 |
| 1890–94 | 147·0 | 50·6 | 4·0 | 4·0 | 88·4 | 3,903 |
| 1895–99 | 246·2 | 63·2 | 23·4 | 7·8 | 151·8 | 4,662 |
| 1900–04 | 298·2 | 76·9 | 31·2 | 16·6 | 173·4 | 5,529 |
| 1905–09 | 419·4 | 92·4 | 48·6 | 12·6 | 265·4 | 6,856 |
| 1910–14 | 457·4 | 117·8 | 93·4 | 6·8 | 239·4 | 8,053 |

* Fiscal years.

TABLE No. 3—(continued).

*Consumption of the World's Gold Supply—* (continued).

| Period. | World Production. | Industrial Arts. | India.* | China and Egypt. | Available for Monetary Use. | Stocks of Monetary Gold at end each Period. |
|---|---|---|---|---|---|---|
| (Annual Figures.) | | | | | | |
| 1915 ... | 469 | 83 | 8 | — 8 | 386 | 8,439 |
| 1916 ... | 455 | 88 | 25 | 13 | 330 | 8,769 |
| 1917 ... | 420 | 78 | 97 | 13 | 232 | 9,001 |
| 1918 ... | 385 | 83 | 0·5 | 2 | 299 | 9,300 |
| 1919 ... | 365 | 112 | 144 | 56 | 53 | 9,353 |
| 1920 ... | 336 | 107 | 17 | —19 | 232 | 9,585 |
| 1921 ... | 331 | 58 | 4 | —11 | 279 | 9,864 |
| 1922 ... | 319 | 73 | 129 | 5 | 104 | 9,968 |
| 1923 ... | 368 | 153 | 98 | — 5 | 122 | 10,090 |
| 1924 ... | 389 | 141 | 254 | — 8 | — 1 | 10,089 |
| 1925 (Est.) | 396 | — | 133 | — | — | — |

* Fiscal years.

(iv) The other factor of importance in considering gold consumption of the future and the effects of changes in the gold market upon prices, wages and the cost of living, is the demand for gold for monetary purposes by various countries of the world. The familiar facts about the changes which have taken place in the gold reserves of the banks of issue of various countries are summarised in the following table as far as figures are available. The table indicates that the present gold reserves are more than 3½ billion dollars larger than they were before the War. An analysis of the table shows, however, that 2¼ billion of the increase is in the stock of gold in the United States. The increase, moreover, is rather misleading in that it does not represent a genuine increase in the amount of gold available for monetary use, but rather a concentration of gold in banks of issue and its removal from the vaults of commercial banks, from hand to hand use, and from stores held by the population.

TABLE No. 4.

*Monetary Gold Stocks of Various Countries, 1913 and 1925.*

(In Millions of Dollars.)

| *Country.* | 1913. | 1925. |
|---|---|---|
| Austro-Hungary ... ... | 251 | — |
| Austria ... ... ... ... | — | 2 |
| Hungary ... ... ... | — | 10 |
| Czecho-Slovakia ... ... | — | 27 |
| Italy ... ... ... ... | 288 | 219 |
| Roumania ... ... ... | 29 | 27 |
| Jugo-Slavia ... ... ... | 11 | 15 |
| Poland ... ... ... ... | — | 26 |
| Belgium ... ... ... | 48 | 53 |
| Bulgaria ... ... ... | 11 | 8 |
| Denmark ... ... ... | 20 | 56 |
| Esthonia ... ... ... | — | 1 |
| Finland ... ... ... | 7 | 8 |
| France ... ... ... | 679 | 711 |
| Germany ... ... ... | 296 | 304 |
| Greece ... ... ... | 5 | 9 |
| Latvia ... ... ... | — | 5 |
| Lithuania ... ... ... | — | 3 |
| Netherlands ... ... ... | 61 | 188 |
| Norway ... ... ... | 12 | 39 |
| Portugal ... ... ... | 81 | 93 |
| Russia ... ... ... ... | 872 | 93 |
| Spain ... ... ... ... | 93 | 490 |
| Sweden ... ... ... | 27 | 62 |
| Switzerland ... ... ... | 33 | 90 |
| United Kingdom ... ... | 170 | 706 |
| *Asia.* | | |
| British India ... ... | 124 | 109 |
| Dutch East Indies ... ... | 11 | 74 |
| Japan ... ... ... ... | 112 | 527 |

TABLE No. 4—(continued).

*Monetary Gold Stocks of Various Countries, 1913 and 1925*—(continued).

(In Millions of Dollars.)

| *Country.* | 1913. | 1925. |
|---|---|---|
| *Australasia* | | |
| Australia ... ... ... | 185 | 234 |
| New Zealand ... ... | 24 | 39 |
| *Africa.* | | |
| Egypt ... ... ... | 10 | 15 |
| South Africa ... ... | 39 | 49 |
| *North America.* | | |
| Canada ... ... ... | 209 | 399 |
| United States ... ... | 1,917 | 4,409 |
| *South America.* | | |
| Agentina ... ... ... | 285 | 446 |
| Bolivia ... ... ... | 7 | 8 |
| Brazil ... ... ... ... | 90 | 62 |
| Chile ... ... ... ... | 42 | 48 |
| Columbia ... ... ... | — | 10 |
| Ecuador ... ... ... | 3 | 5 |
| Peru ... ... ... ... | 20 | 22 |
| Uruguay ... ... ... | 11 | 57 |
| Venezuela ... ... ... | 2 | 13 |
| Totals ... ... | 6,085 | 9,771 |

*General Explanations.*—For most countries, figures are those of central banks. Exceptions noted below.

1925 figures are for end of year or nearest available date:—

*Austro-Hungary.* — Upon liquidation of Austro-Hungary Bank, the gold stock, amounting to $30,000,000, was divided as follows:—

| | |
|---|---|
| Austria ... ... ... | 3 million $ |
| Hungary ... ... | 3 ,, |
| Czecho-Slovakia ... | 7 ,, |
| Italy ... ... ... | 3 ,, |
| Roumania ... ... | 7 ,, |
| Jugo-Slavia ... ... | 5 ,, |
| Poland ... ... ... | 2 ,, |

(Memorandum on Central Banks, 1918-1923, page 75.)

*Italy.*—Treasury and three banks of issue, excluding gold on deposit in England.

*France.*—Excluding gold on deposit in England.

*Germany.*—Holding of Reichsbank and four private banks of issue. Gold abroad included.

*Roumania.*—Gold sent to Russia excluded.

*Russia.*—1913—Reserve of State Bank (Memorandum on Currency and Central Banks, 1913-1924, Vol. II, page 140). 1925—Reserve of Issue Department of State Bank.

*Spain.*—Gold holdings of Treasury included.

*British India.*—Paper Currency Reserve only.

*Australia.*—Treasury, Commonwealth Bank and commercial banks.

*New Zealand.*—Banks of issue.

*South Africa.*—Reserve Bank and other banks.

*Canada.*—Chartered Banks, Central Gold Reserve and Dominion Treasury. Includes gold held abroad by banks, presumably largely in New York. This may involve a small duplication with the stock of gold in the United States.

*United States.*—Stock of gold.

*Argentina.*—Conversion Office. Bank of the Nation and other banks.

*China and Mexico.*—No information available.

*Central America.*—Holdings small.

(v) In considering how far various countries will require gold to strengthen their monetary position, there are two major questions:

(1) The position of the banks of issue.

(2) The use of gold for hand-to-hand circulation.

The available facts bearing upon the first question are abstracted for a number of countries in the attached table, showing the ratio of gold reserves to combined deposit and note liabilities of banks of issue. This table indicates that for many of the banks of issue the gold ratio is very close to that which prevailed prior to the war. But there are a number of countries in the table, and also a number for which data are not available, where the present stock of gold is probably inadequate as a monetary reserve, even when concentrated in the bank of issue. And if we assume that the increase in the gold reserves since 1913 should be commensurate with the increase in prices and wages, there are many of the countries whose reserves are inadequate. However, in a number of cases balances abroad are at present taking the place of reserves of actual gold, and this practice makes for economy in the use of gold.

TABLE No. 5.

BANKING POSITION OF VARIOUS COUNTRIES.

(1913, end of year figures; 1926 latest available date.)

| Country. | Ratio of Gold to Paper Money. | | | Ratio of Cash Reserves to Sight Liabilities of Central Banks. | | | Ratio of Cash to Deposits of Commercial Banks. | |
|---|---|---|---|---|---|---|---|---|
| | At Par. | | At Current Exchange. | At Par. | | At Current Exchange. | At Par. | |
| | 1913. | 1926. | 1926. | 1913. | 1926. | 1926. | 1913. | 1926. |
| Austria ... ... | 49·8 | 2·0 | — | 50·6 | 2·0 | — | — | — |
| Belgium ... ... | 23·3 | 3·7 | 17·7 | 29·9 (1) | 4·4 | 17·9 | — | — |
| Bulgaria ... ... | 29·1 | 0·8 | 20·0 | 23·5 | 1·4 | 22·5 | — | — |
| Czecho-Slovakia ... | — | — | 13·5 | — | — | 12·7 | — | — |
| Denmark ... ... | 48·0 | 52·4 | — | 51·1 | 33·8 (2) | — | 3·0 | 4·6 |
| Finland ... ... | 31·9 | 25·3 (3) | — | 25·1 | 17·0 (3) | — | 5·3 (4) | 6·8 (5) |
| France ... ... ... | 61·6 | 7·1 | 34·4 | 59·5 | 7·4 | 18·3 | 8·6 | 12·1 |
| Germany ... ... | 42·9 | 27·7 | — | 57·5 | 38·2 | — | — | — |
| Great Britain ... ... | 113·3 | 39·5 | — | 34·7 | 46·1 | — | 16·4 | 12·1 |
| Greece ... ... ... | 10·7 | 0·8 | 12·0 | 8·7 | 0·6 | 8·7 | — | — |
| Hungary ... ... | — | 24·4 | — | — | 15·0 | — | — | — |
| Italy ... ... ... | 53·6 | 6·0 | 25·1 | 56·4 | 5·3 | 23·6 | — | 7·3 |
| Jugo-Slavia ... ... | — | 1·4 | 14·7 | — | 1·5 | 16·4 | — | — |
| Latvia ... ... ... | 22·4 (6) | 35·8 | — | 26·0 (6) | 16·0 | — | — | — |
| Lithuania ... ... | — | 35·7 | — | — | 37·3 | — | — | — |
| Netherlands ... ... | 48·2 | 56·2 | — | 50·4 | 50·8 | — | 5·9 (7) | 6·6 (5) |
| Norway ... ... | 40·7 | 43·9 | — | 36·8 | 31·7 | — | 3·0 | 3·4 (9) |
| Poland ... ... ... | — | 15·7 (8) | — | — | 11·0 | — | — | 13·1 |
| Portugal ... ... | 9·2 | 0·5 | 11·1 | — | 0·6 | 12·4 | — | — |
| Roumania ... ... | 34·8 | 0·7 | 26·5 | 30·8 | 0·7 | 25·9 | — | — |
| Russia ... ... ... | 91·8 | 21·9 | — | — | — | — | — | — |
| Spain ... ... ... | 24·9 | 58·6 | — | 61·3 (10) | 56·0 | — | — | — |
| Sweden... ... ... | 43·6 | 47·0 | — | 30·5 | 33·3 (11) | — | 3·3 | 2·3 |
| Switzerland ... ... | 54·1 | 56·9 | — | 54·1 (11) | 55·5 | — | 7·1 | 8·7 (2) |
| Canada... ... ... | 67·1 | 53·9 | — | 4·1 | 5·5 | — | 11·3 | 8·7 |
| Japan ... ... ... | 52·6 | 90·8 | — | 47·7 (12) | 57·0 | — | 12·0 | 13·9 (2) |
| South Africa ... ... | — | 99·0 | — | — | 52·4 | — | — | — |

(1) June, 1914.
(2) 1924.
(3) At new currency par.
(4) 1920.
(5) 1923.
(6) 1922.
(7) 1921.
(8) If pledged gold is included, 36·3 %.
(9) November, 1925.
(10) 1915.
(11) Average figures.
(12) 1914.

Sources: Bank Statements, and League of Nations, Memo. on Central Banks.

(vi) Concerning the problem of the use of gold in hand to hand circulation, the United States is now practically the only large country where this type of circulation has been resumed since the war and few other countries are in a position to permit such circulation. The question as to whether hand-to-hand circulation of gold will be generally resumed is impossible to answer, and speculation on the subject is largely fruitless. In general, the world cannot at present afford such circulation.

(vii) The result of this general inspection of the future production and consumption of gold would appear to indicate that if India continues anything like her recent takings of gold the world demand for gold will easily absorb all the available supply and the tendency for commodity prices will be to work lower rather than higher as far as they are influenced by gold, unless this influence is offset by economy in the use of that metal. Thus, any additional demand which India might make upon the gold market would be likely to exert a depressing influence upon prices.

15,291. (*Mr. Warren.*) That concludes the memorandum on the subject of gold consumption and production, by Mr. Burgess.

15,292. Professor Sprague, perhaps it would be convenient if you could assist us by any general amplification of the memorandum which has just been read, which seems to provide in itself the answer to most of the particular questions in the questionnaire which has been submitted to you?

15,293. (*Dr. Sprague.*) (i) I think I can take up the questions relating to gold in groups. I wish to indicate what I conceive will be the effects of the establishment of the plan upon the gold standard in different parts of the world, and then to consider

the working of the plan on the supposition that it has been successfully established upon the functioning of the gold standard both in India and elsewhere. The memorandum is designed to show that there is no free gold anywhere in the world outside of the United States and India. In India the gold is apparently inaccessible. There is a large stock, but it is not available for monetary purposes. In other countries, the United States excepted, it would appear that existing stocks of monetary gold are somewhat deficient; that, at least in many of those countries, it will be desirable to increase the stock of gold held in central banks; that to withdraw any appreciable amount of the gold now held from those countries would threaten the maintenance of the gold standard, and would render it difficult to restore the gold standard in various countries which contemplate that step in the not distant future.

(ii) In the United States alone, there is a large amount of what may be styled "free gold," and the last question in the questionnaire relating to gold—Question 10—seems to imply that there is a redundancy of gold in the United States. "Redundancy" is a word which does not seem to me to apply to the situation. You have a condition of redundancy when the situation is such that gold is being forced out of the country—spilling over from the reservoir. That is not the case in the United States. There is no evidence of a situation tending to the exportation of gold because of a level of prices not in equilibrium with price levels in other parts of the world. What one may say regarding the gold holdings in the United States is that a considerable amount of gold might be withdrawn without affecting the level of prices, without involving a contraction of credit and a decline in prices. Or, to state it in another way, while there is an amount of gold in the United States which would permit a decided upward movement in prices, this gold is not at present involving the country in an upward price movement, and there is little evidence that such an upward movement is to occur. The total amount of free gold in the United States may be estimated pretty closely. The Federal Reserve Banks hold about 2¾ billion dollars in gold. This gives the reserve banks a reserve ratio of about 70 per cent. The banks could function under existing practice and legislation, without difficulty if this gold reserve were, let us say, 50 per cent. There is therefore a possibility of withdrawing from the Federal Reserve Banks, let us say, 800 millions without compelling any credit contraction. There is also nearly one billion dollars of gold in circulation, circulating in the form of gold certificates against which an equivalent amount of gold is held in the United States Treasury. These gold certificates as they come into the banks in the ordinary course of business, as the certificates become worn, might be replaced in circulation by an equivalent amount of Federal Reserve Notes against which the Federal Reserve Banks would, of course, hold the proper gold reserve—say 40 to 50 per cent; and this would release something like half a billion of gold. So that in total we have something between 1,200 millions and 1,500 millions of gold which might be withdrawn from the United States without necessitating credit contraction and lower prices. This is the one available supply of gold other than that currently produced to meet increasing world requirements to support the present level of prices. Now, of this total the proposed plan would require something like 500 millions—rather more than a third of this free stock of gold in the United States. Whether the Indian Government were to place loans in the United States or elsewhere, it is from this stock of free gold in the United States that its supplies of gold would be secured. This gold might be secured from the United States directly without any credit disturbances under certain conditions. Assume that the loan were placed in the New York market and readily taken by investors: the bankers receiving the funds from investors would take the proceeds in the form of gold, exporting that gold to India. The immediate result would, of course, be a reduction in the required reserves of member banks, since the member banks would necessarily withdraw the gold from the Federal Reserve Banks, as that is the only available supply of gold. Their reserve requirements being reduced, it would be necessary for the member banks either to contract credit in order to reduce their own deposit liabilities, and so their required reserves, or to secure accommodation from the Federal Reserve Banks in order to restore their reserve. As member banks are somewhat unwilling to borrow steadily from the Federal Reserve Banks, if the policy of the Reserve Banks were unfavourable to the transaction there would be a combination on the part of member banks of credit contraction and borrowing from Federal Reserve Banks in order to meet this reserve deficiency, entailing an uncertain but doubtless considerable amount of credit contraction with advancing lending rupee rates and with declining price tendencies. On the other hand, if the transaction were regarded favourably by the Federal Reserve Banks, if it were desired to facilitate the transaction, then the Federal Reserve Banks could enter the open market, buying bills and United States Government securities to an extent which would fully cover the amount of gold withdrawn, thus restoring the reserves of the member banks. The final outcome under such circumstances would be that the Federal Reserve Banks would hold 500 millions more of earning assets and would hold 500 millions less in gold, and their reserve ratio would be reduced from the present 70 per cent. to a figure in the neighbourhood of 60 per cent. They would still be in a very comfortable position. Thus you can see that it is entirely possible to finance this plan in the United States without any difficulty whatever if the plan itself appears to be desirable for all parties concerned.

(iii) On the other hand, if the Indian Government were to float loans in England and on the Continent, it would be necessary for the banks in Europe to take measures designed to shift the gold withdrawal from England and the Continent to the United States. That would involve credit contraction here, and declining prices, and this policy it would be necessary to carry very far—so far that it would have most disturbing consequences, and presumably would involve such industrial dislocation as might force the European countries off from the gold standard. It would appear to be entirely impracticable under existing circumstances to carry through the drastic credit policies which would be necessary to so influence the exchanges as virtually to compel gold exports from the United States. I have stated this perhaps in somewhat unqualified terms. No doubt a small fraction of the desired amount of gold might be secured on this side, but the bulk of the requirement must, under existing conditions, be secured directly or indirectly from the United States. I think it is reasonable to say that it is impracticable to secure the gold indirectly, and that the only practical method is to secure it directly and with the co-operation of the Federal Reserve Banks—because clearly it would be impracticable for the bankers to arrange the loan for the Indian Government unless they were quite certain that the withdrawal of the gold would not entail drastic contraction of credit by member banks in order to restore their reserves.

(iv.) I have given a figure of free gold in the United States which may appear to you large—perhaps

larger than has been implied in some of the statements which have been made by previous witnesses; but this total of between a billion and a billion and a half of free gold does not appear to me to be large when taken in relation to probable gold requirements throughout the world during the next 10 or 15 years. It may properly be regarded, it seems to me, as a sort of cushion which gives a fair degree of assurance that in the years immediately ahead there will be sufficient gold available to maintain prices at something like present gold levels throughout the world. We do not know just how much gold will be required to place the central banks of all the various countries in a satisfactory reserve position. We do not know the amount of gold that may be required in the course of the next 10 or 15 years to take care of increasing requirements as population increases and as production and trade are enlarged, but it certainly renders the world a little less dependent upon the vagaries of gold production from year to year that there is this large store of gold in the United States available in one way or another to support prices throughout the world at something like the present levels.

(v) If there were present danger of increasing prices throughout the world owing to a superabundance of gold coming from the mines, I should regard this Indian proposal with much more favour, but it does not appear to me that the gold position is one which will warrant one in assuming that very stable prices can be maintained if as large a draft is to be made upon gold supplies as seems to be involved in the plan under consideration. Our general impression is that the plan will require rather more than the estimated amount of gold. We are inclined to think that more rupees may be presented for redemption in the early years than the plan assumes, and we are not at all certain that a considerable quantity of notes may not be presented for exchange into rupees, the rupees in turn being presented to the Indian Government for conversion. But quite apart from this uncertainty as regards the monetary requirements for gold under the plan in the earlier years, we also feel that there is grave danger that the non-monetary demand for gold in India may be increased through the effect of the plan upon the Indian public. That was a point which was brought out last Friday in our discussion on silver. We feel that the decline in the value of silver which we anticipate as a result of the plan will greatly accentuate the tendency to accumulate gold in India, at least in the early years of the operation of the plan. Therefore we cannot regard with satisfaction a plan which makes so large and indeterminate a draft upon this store of free gold in the United States. That, I think, Mr. Chairman, covers what I had in mind to say regarding the establishment of the plan, as contrasted with the working of the plan once established.

15,294. (*Chairman.*) Let us pause there for a moment in order to see if any of my colleagues have any point which they would wish to have cleared up, in your most helpful treatment of the subject.

15,295. (*Professor Coyajee.*) Professor Sprague, a friendly critic of the admirable exposition which you have given us this morning, might put forward this proposition. Would it not pay the United States, or for that matter the world, to grant the loan required by India for establishing a full gold standard —something in the vicinity of £103,000,000—and thus obviate the certainty of India absorbing the annual amounts of gold which she has been absorbing? It could be argued, could it not, that if a gold currency and a gold standard were established the habit of hoarding might be weakened, because people would say, "The gold is always available for us whenever we want it." Thus the people might be educated out of the hoarding habit. Would you consider that a sound proposition?—I do not think that that would be a potent influence in lessening that habit. In the first place I would call attention to the fact that silver coin has been used for generations, and silver has also been stored away both in coin and uncoined form. The propensity—to use a word much affected by Adam Smith—to accumulate gold is in part due to the desire to have something of value on hand. It is in part due to the ornamental attractiveness of gold, and it is in part due to certain legal arrangements in India relative to the share of property going to the widow. It is also due, I take it, to a lack of avenues for the investment of savings, or to inexperience in putting savings into productive use. I feel that the means of modifying the habit of accumulating precious metals are quite various, and that the introduction of a gold currency is one of the least important of them, and that perhaps in the initial stages of the plan it would not be a means of lessening but rather of increasing the tendency to accumulate precious metals—in this case gold. I think it is necessary to establish banking facilities, to develop investment facilities and the investment habit if the propensity to store gold is to be weakened; but when this has been done, then it might be that the introduction of a gold currency would slightly further that development, though I am by no means sure of it. Take the case of France. The habit of investment is pretty general in France, but still, the old habit of storing away money continues in that country. It is a very deep-seated habit, and I know of no instance in which it has been suddenly changed.

15,296. Another question on the same topic is this. How would the working of the gold standard in a country which has got the hoarding habit differ from the working of the gold standard in a country which has not got any such system? Have you any opinion on that?—That is a part of what I intended to take up in the second part of my statement.

15,297. (*Professor Coyajee.*) Then I will defer my question until that time.

15,298. (*Sir Purshotamdas Thakurdas.*) You said that the free gold in America at present is required to support gold prices at a certain level. Would it be a correct inference to make that you do not think that the level of prices at present can be looked upon as likely to stand? Do you expect fluctuations, and, if so, downwards only?—I look upon gold as having a very decided influence upon prices if you take long enough periods of time into account. The average level of prices for any period of five years—say a period of five years 20 or 30 years hence—would in my judgment be very greatly influenced by the amount of gold produced during the next 20 or 30 years, and to the methods employed in its use as money. I think it is probable that it will be necessary to economise in the use of gold if anything like the present level of prices is to be maintained during the next 25 years. I do not believe it would be possible to introduce a gold currency throughout the world without involving a drastic decline in the level of prices. Just how far it may be possible to go in the introduction of a gold currency throughout the world I am unable to say.

15,299. Do I understand, then, that you fear that the present level of prices may fluctuate downwards only?—I think that with this store of one billion and a-half free gold in the United States, and with reasonable economy in the use of gold for monetary purposes throughout the world, it is reasonable to presume that prices will not fall, but if there should be an unexpectedly large increase in the annual output of gold I should think it might prove desirable to

inject a considerable amount of gold into hand-to-hand use in order to maintain in a rough way the present level of prices. We cannot tell in advance what it may be desirable to do over a period of 25 years in order to secure, so far as gold is concerned, that desideratum—a fairly stable level of prices over the years; but I am convinced that a very large withdrawal of gold at the present time for hand-to-hand use, whether in India or elsewhere, would be inadvisable both because it would render difficult the restoration of the gold standard in many countries and because it would probably involve some decline in the level of prices.

15,300. (*Sir Reginald Mant.*) You have shown us that there is reason to believe there is about 1,200 million to 1,500 million dollars of what might be called surplus gold in the United States, although steps have been taken, I understand, to prevent that gold from being used for the inflation of prices?—That gold is already, in a sense, used. Perhaps I might illustrate it by outlining the process by which any given increase of gold coming into the United States affects the price situation. Let us suppose that 100 million dollars additional gold is imported to the United States. That gold will immediatoly be deposited in various Member Banks. They in turn will redeposit that with the Federal Reserve Banks, thus increasing their reserve—the reserves of the Member Banks—by 100 million dollars. They are required to maintain deposit balances at the Reserve Banks equal to, roughly, 10 per cent. of their own deposit liabilities. Thus you might suppose that the Member Banks would be able to lend a thousand million dollars on the basis of the additional 100 million of balances they have created at the Reserve Banks by depositing the 100 millions of gold. They could not increase by a thousand millions, because as they increase their loans and chequeing accounts through the loans, and these chequeing accounts are drawn against, additional currency will be required. It is not an automatic situation, but the tendency is there, and I think one may say, roughly speaking, that any large increase in loans by Banks will involve also an increase in currency; and my estimate would be that an additional 100 millions of gold deposited with the Federal Reserve Banks would enable the Member Banks to increase their loans or the volume of credit by perhaps 500 millions. That, I would say, is the total initial and direct effect of the importation of 100 millions. But this has left the Federal Reserve Banks unaffected so far. They have received an additional 100 millions, and it would be possible for the Federal Reserve Banks, on the basis of that 100 millions of gold, to extend credit, which in turn would increase the deposit balances of the Member Banks and enable them in turn to enlarge credit. You may say that any 100 millions imported is certain to produce the direct effect of an increase in the loans and investments of the Member Banks. They are competing with each other, and each Member Bank desires to employ its resources fully. But the second stage—the use which the Federal Reserve Banks may make of the 100 millions—is subject to control by the Federal Reserve Banks. They are not required to lend any more because they have received 100 millions of additional gold. They may simply leave it unused. It will then merely increase the reserve ratio of the Federal Reserve Banks. That is the situation. The last billion of gold received in the United States has had the effect of increasing the loans and investments of the Member Banks, but it has not led the Federal Reserve Banks to increase their own earning assets; and I think it is reasonable to say that if the Federal Reserve Banks held at the present moment 300 million, 400 million or 500 million of gold less than they now hold the loans of the Federal Reserve Banks would not be appreciably different from what they now are. The gold that I spoke of as free gold has exerted its full influence so far as it has enabled the Member Banks to enlarge their own loans and investments, but it has not exerted the influence which it might exert in enabling the Federal Reserve Banks to extend more credit.

15,301. (*Mr. Strong.*) Mr. Chairman, would it be of any interest to the Commission to extend this particular discussion of the policy of the Reserve Banks into the further field of control, if you please, of the use which the Member Banks themselves may make of the credit created by a gold import? Dr. Sprague's discussion stops at the point of the policy of the Member Banks.

15,302. (*Chairman.*) Will you amplify the matter in that respect?—Yes, if agreeable to Dr. Sprague. One of the items of policy of the Reserve Banks necessarily must be at times to exercise such an influence upon the credit operations of the Member Banks that this very process of expansion of loans and deposits growing out of the importation of gold may not be a menace to our credit position and result in a rise in prices. The Reserve Banks have always been able to maintain a reasonably satisfactory portfolio in recent times, say, one-third, in bills which are taken from the market (the type of bill which is common in the London discount market), roughly, one-third in Government securities, and the balance, fluctuating from one-third to a larger amount, in discounts of paper which are offered to us for discount by our Member Banks. Now, a large movement of gold to the United States creating these reserves can in part be off-set by withdrawal of credit from the market by the liquidation of a part of our portfolio. The process takes place ordinarily by the Reserve Banks upon their own initiative selling their Government securities. Sales of securities from portfolio effect a depletion of the reserves of the Member Banks, which can only be restored by borrowing from us. As their borrowings increase in order to make good the depletion of their reserves, our rate of discount becomes more effective, and we get a more complete control of their power of expansion of their loan account. So that, to carry the description, which Professor Sprague has made, beyond the point of the simple control of our own capacity of expansion, we are able to exercise some control over the ability of the Member Banks to expand their loan account by forcing them into debt to the Reserve Bank and making our discount rate an effective check upon that expansion.

15,303. (*Dr. Sprague.*) Perhaps at this point it might be of interest to the Commission if a copy of the Weekly Statement of the Reserve Banks were inserted in the records.

15,304. Yes, I think it would be so.—(*Dr. Sprague.*) The following is the statement:

*Resources and Liabilities of the Twelve Federal Banks Combined.*

(In Thousands of Dollars.)

| Resources. | April 14, 1926. | April 7, 1926. | April 15, 1925. |
|---|---|---|---|
| RESOURCES. | | | |
| Gold with Federal reserve agents ... ... ... ... | 1,385,430 | 1,384,531 | 1,554,000 |
| Gold redemption fund with U.S. Treasury ... ... ... | 52,815 | 47,741 | 54,419 |
| *Gold held exclusively against F.R. notes* ... ... ... | 1,438,245 | 1,432,272 | 1,608,4 9 |
| Gold settlement fund with F.R. Board ... ... ... ... | 715,880 | 730,247 | 637,109 |
| Gold and Gold certificates held by banks ... ... ... | 627,663 | 620,827 | 599,055 |
| *Total Gold Reserves* ... ... ... ... ... ... | 2,781,788 | 2,783,346 | 2,844,483 |
| Reserves other than gold ... ... ... ... ... ... | 157,017 | 150,305 | 141,044 |
| *Total reserves* ... ... ... ... ... ... ... | 2,938,805 | 2,933,651 | 2,985,527 |
| Non-reserve cash ... ... ... ... ... ... ... | 62,838 | 61,484 | 56,630 |
| Bills discounted :— | | | |
| Sec. by U.S. Government obligations ... ... ... | 334,735 | 290,169 | 206,132 |
| Other bills discounted ... ... ... ... ... ... | 242,549 | 288,383 | 189,170 |
| *Total bills discounted* ... ... ... ... ... ... | 577,284 | 578,552 | 395,302 |
| Bills bought in open market ... ... ... ... ... | 274,058 | 229,773 | 274,058 |
| U.S. Government securities :— | | | |
| Bonds ... ... ... ... ... ... ... ... | 94,136 | 74,997 | 84,896 |
| Treasury notes ... ... ... ... ... ... ... | 143,465 | 134,897 | 244,780 |
| Certificates of indebtedness ... ... ... ... ... | 139,415 | 132,135 | 28,156 |
| *Total U.S. Government securities* ... ... ... ... | 377,016 | 342,029 | 357,832 |
| Other securities ... ... ... ... ... ... ... | 5,185 | 5,185 | 1,652 |
| Foreign loans on gold ... ... ... ... ... ... | 8,700 | 8,800 | 10,500 |
| *Total bills and securities* ... ... ... ... ... | 1,242,243 | 1,164 339 | 1,039,344 |
| Due from foreign banks ... ... ... ... ... ... | 643 | 643 | 639 |
| Uncollected items ... ... ... ... ... ... ... | 768,248 | 635,145 | 786,206 |
| Bank premises ... ... ... ... ... ... ... | 59,481 | 59,480 | 59,241 |
| All other resources ... ... ... ... ... ... | 16,201 | 15,040 | 21,618 |
| TOTAL RESOURCES ... ... ... ... | 5,088,459 | 4,869,782 | 4,949 205 |
| LIABILITIES. | | | |
| F.R. notes in actual circulation ... ... ... ... | 1,681,096 | 1,652,878 | 1,698,090 |
| Deposits :— | | | |
| Member bank—reserve account ... ... ... ... | 2,283,222 | 2,191,635 | 2,141,443 |
| Government ... ... ... ... ... ... ... ... | 43,280 | 60,580 | 37,027 |
| Foreign bank ... ... ... ... ... ... ... ... | 4,576 | 7,954 | 5,905 |
| Other deposits ... ... ... ... ... ... ... ... | 16,074 | 18,298 | 23,571 |
| *Total deposits* ... ... ... ... ... ... ... | 2,347,152 | 2,278,467 | 2,207,946 |
| Deferred availability items ... ... ... ... ... ... | 703,600 | 582,779 | 698,694 |
| Capital paid in ... ... ... ... ... ... ... | 120,898 | 120,455 | 114,586 |
| Surplus ... ... ... ... ... ... ... ... | 220,310 | 220,310 | 217,837 |
| All other liabilities ... ... ... ... ... ... | 15,403 | 14,893 | 12,052 |
| TOTAL LIABILITIES ... ... ... ... | 5,088,459 | 4,869,782 | 4,949,205 |
| Ratio of total reserves to deposit and F.R. note liabilities combined. | 73·0 % | 74·6 % | 76·4 % |
| Contingent liability on bills purchased for foreign correspondents. | 68,202 | 68,172 | 44,897 |

15,305. (*Sir Reginald Mant.*) There are just two points I would like to put to you, Dr. Sprague, in connection with this surplus of free gold. The first is this. It is evident, I think, that it must cost America something to hold this gold. Dr. Hollander told us the other day that America regarded herself as holding it in trust for the other nations when they wanted it. I take it that it would be to the advantage of America to get the other nations to take some of this gold, assuming that that gold were applied for strengthening and stabilising the currencies of those other nations. From that point of view it would be an advantage to America, would it not, and an economy, to get rid of some of this surplus gold?—Yes, but the advantage is not very considerable. Assume, for example, a loan of 500 million dollars at, say, 6 per cent., that is 30 million dollars a year. Well, for a country whose annual income may be estimated at 60 billion of dollars, 30 million dollars is not very much.—(*Mr. Strong.*) May I make a further addition to Dr. Sprague's answer? I wholly disagree with the theory of the cost to the nation of this gold. One might say that it costs any nation an unnecessary amount of income which it might otherwise obtain, to have a high bank reserve. In other words, if, under the conditions which now exist in the world, it seems appropriate or necessary—not in a selfish sense but with regard to the interest of monetary restoration in the world—that the United States should run its banking system as now reorganised with a reserve which is, say, 20 or 25 per cent. above what has formerly been regarded as, we will say, the apprehension point of bank reserve, it simply means that we have so many millions of gold in bank reserves in the United States which we have received in exchange for goods sold to the rest of the world which we would prefer, as a matter of national

policy and protection to allow to remain idle as a surplus, or as an excess, or as an unduly large reserve, rather than to permit it to earn money when the earning of that income would result in a disastrous inflation. In that sense I do not think we can regard the loss of interest—which is a cost—and the loss to our Federal Government of the amount of franchise tax which it would otherwise receive from the Federal Reserve Banks, as a national loss. It would possibly be a more proper characterisation to regard any such loss of income as an insurance premium which we are quite willing to pay for protection against all the disorders of a highly rapid fluctuation in prices.

15,306. The other point which I wanted to put was this. Is there any risk of this surplus gold in America being used for inflationary purposes?—Is there any risk of it being used to raise prices?—*Dr. Sprague.*) I should say that, perhaps on account of the still vivid recollection of experiences between 1915 and 1921, there is no desire on the part of the people of the United States to go through another period of rapidly rising prices; rather the contrary. The desire to maintain something like the present level of prices in the United States seems to me to be very deep-seated at the present time. I do not, in the near future, at all events, anticipate any serious danger from the possession in the United States of this free stock of gold. There is the possibility of large credit expansion with consequent rapid rise in prices, but I do not believe that there is any danger of such credit expansion.

15,307. (*Sir Maneckji Dadabhoy.*) Dr. Sprague, I must confess that I am greatly informed this morning by the very candid statement you have made regarding the gold position in America. It will throw considerable light on our impending deliberations. There are certain points, however, in your evidence to-day, as well as in the evidence which Dr. Hollander and Mr. Strong gave on the last occasion, which require clarification. I will request you, therefore, kindly to give me a few moments to discuss with you some of the important points which you have raised. I have very carefully followed your evidence and have gone through your written statement, and I find some difficulty in exactly gauging the situation. I cannot make up my mind from your statement whether you and your distinguished colleagues object to the adoption of a gold standard for India or object to a gold standard with a gold currency but without objecting to a gold standard.

15,308. (*Chairman.*) I see that your examination, Sir Maneckji Dadabhoy, is going to take rather a general aspect. Would it perhaps be more convenient to allow Dr. Sprague to complete his development of the situation as regards gold before we go into any general matters, because so far we have only heard one-half of his development of the situation?

15,309. (*Sir Maneckji Dadabhoy.*) Just as you like, Sir.

15,310. (*Chairman.*) I think, if the examination is going to take rather the general line indicated by your first question, it would be better for Dr. Sprague to complete his statement. Then, Dr. Sprague, may I ask you now to continue with the second aspect of the scheme to which you referred in the first part of your analysis, namely, how it will work?

15,311. (*Dr. Sprague.*) (i) Yes. It would probably simplify the examination of the matter if we assumed that the gold has been in some way secured without involving any credit difficulties in Europe or in the United States. We might make such a supposition, for example, as that the 103 million pounds had been secured in India itself by the flotation of a loan in India which was absorbed by the Indian people acting under the general patriotic desire to secure the establishment of a gold standard, and attracted by the investment qualities of the loan to be brought out by the Indian Government. It would indeed appear to me to give real ground for believing that India was ready for the gold standard if such a loan could be successfully floated in India itself, extracting from the stores of gold the desired 103 million pounds. It would indicate that the habit of saving gold was in course of being weakened and that presumably it would be still further weakened with the gold currency. With the loan floated in India, such an arrangement would furnish the Treasury with the desired amount of gold; would not threaten the gold standard in other countries, and would, as I say, be an indication that there was little danger to be apprehended of an accentuation of gold hoardings through the operation of the plan.

(ii) India enjoys regularly a favourable balance of merchandise payments—a balance which is subject to a great deal of variation from one year to another, as must almost inevitably be the case with a country the exports of which are mainly agricultural, where the crops vary greatly from year to year, depending as they do in large measure upon the monsoon. I am troubled, when I consider the working of this plan, by the possibility that after a year of particularly large exports there may be a disturbingly large inflow of gold to India. I might illustrate that by citing the case of the United States. The United States was formerly far more largely an agricultural country than it is at present, but it is still the case that exports from the United States are subject to very wide variations from year to year. In one year we may have an export surplus of 500 million or 600 million dollars, followed the next year by an export surplus of a billion and a half. Such a range of fluctuation in our export surplus is quite possible. If the United States would only take gold in payment for this excess of exports —if that had been the situation in the United States in former decades, in the '80's and the '90's, let us say, of last century—it would have rendered the working of the gold standard in European countries almost an impossibility. But the inflow of gold was moderated and spread over a longer period, through the influence of discount rates and through the movement of securities backwards and forwards. In a period of large exports from the United States American securities held abroad would be in part returned to the United States and taken by American investors, or balances would be left in the European banks and gradually drawn down. I do not understand that there are any such counteracting influences available to the same extent in the relations between India and the rest of the world, or that there would be such under this plan. In the past, however, there has been something which served the purpose which was served in the United States by the return of securities and the influence exerted by relative discount rates. That substitute in the case of India was silver. In years of prosperity, additional requirements for currency in India were met by the purchase of silver in the markets of the world, and such purchases had no more effect upon the monetary position in European countries than the purchase of an equivalent value of cotton cloth; but if you substitute a demand for gold for the former demand for silver you introduce a factor into the working of the gold standard in other countries which may compel erratic and extreme fluctuations in discount rates. A slightly analogous case is furnished by Egypt. Egypt, in the pre-War period, was a very disturbing factor in the functioning of the money market, because every year, after the cotton harvest in Egypt, a large amount of gold was pulled out of the London market, since that was virtually the only kind of currency in use in that country. It was a disturbing influence that could be endured, because it was relatively small, but a similar influence on the larger scale possible in the case of India will introduce a factor into the situation which will render the gold standard far less satisfactory than would otherwise be the case, and this must necessarily have reactions upon India. In particular, in the case of an

agricultural country, it is not desirable that your customers should be subject to the strain involved in protective high discount rates at just the time when they are purchasing your crops.

(iii) My conclusion is, *not* that it is necessary for India to continue exactly the currency arrangements that it maintained in pre-War years, but rather that as a part of any scheme for the establishment of the gold standard it is of the utmost importance that agencies be developed in India which will lessen the strain upon the gold supplies of the rest of the world in years of particularly favourable Indian export business; and I am convinced that the particular agency which is most essential in this connection is banking. If you have a banking system which is well diffused throughout the country, which can influence the situation in India by changes in discount rates, and which can facilitate the spreading over a considerable period of time the demands for gold which India may make because of its export trade, then you have developed the necessary agency which will permit the establishment and the functioning of the gold standard in India without repercussions which will render the gold standard unsatisfactory everywhere throughout the world. The development of banking, in other words, appears to me to be far more essential in India than a gold currency. It would appear to me to be essential as a means of developing the country, of weakening the tendency to store away precious metals, and as a means of making those temporary adjustments in payments between countries that are essential for the satisfactory working of the exchanges and, in general, for the functioning of central banks throughout the world.

(iv) I think that this, in part, at least, answers the question which the Chairman suggested might be deferred until I had finished my second statement regarding gold. It is not the gold standard or a gold currency which at the moment seems to me to be the desirable first step in the development of monetary arrangements in India. I believe there are two desirable and practicable developments which can be initiated now, and which might in the course of time permit the full adoption of the gold standard without disturbance to the rest of the world. One of these is, as I have indicated, the further development of banking. The other is a broadening out of the arrangements developed in pre-War years and in recent years for operating the gold exchange standard. The gold exchange standard realised, on the whole, what seems to me to be the essentials which are secured through the gold standard itself, but it was rather narrowly based upon a single market. It does not appear to me to be on the whole desirable that a country so large as India should operate a gold exchange standard through a single market. There is no fundamental difficulty in operating a gold exchange standard on two or even all of the money markets of the world which are upon a solid gold basis. Exchange can be furnished to support the rupee at some given value on New York as well as upon London and other centres. The exchange market can be made to function, in other words, very much as it would function if India were on a gold standard. If the gold exchange standard were developed in that way Indian credit would become far more familiar than it now is in other markets than London, and the flotation of loans at some future time, whether for purposes of the carrying out of some monetary plan or for other purposes, would be greatly facilitated. At this point I presume that I am in a sense answering the very last question which appears in the questionnaire with regard to the practice of purchasing bills in India rather than the sale of council drafts in London. As a further development of the gold exchange standard it would seem to me desirable that the business should be transferred from the Government of India to a central bank—presumably to a new bank or perhaps to the Imperial Bank; but I see no reason for continuing tho practice of handling this kind of business through a direct Government Treasury agency. I should suppose that it would be an essential measure in the development of modern banking arrangements in India that the entire business of furnishing the Government with its balances in London should be handled through banking agencies rather than through the Treasury. In other words, the two matters of broadening out and modifying the gold exchange standard, and the further development of banking agencies, are very closely associated. I think at this point I am ready to answer any further questions.

15,312. (*Chairman.*) Thank you very much indeed for your further explanation. It has reached the point when it looks forward from the scheme which has been particularly under consideration to other and alternative schemes, as to which you have indicated, on a broad basis, the direction in which, in your opinion, advance might be made. I will ask Sir Maneckji Dadabhoy now to resume his questions.

15,313. (*Sir Maneckji Dadabhoy.*) Dr. Sprague, the statement which you have just made gives a different aspect to your earlier evidence, but I still think it would be better to get to know the exact position in which we stand, and I will attempt to clarify it step by step. I understand, so far as Dr. Hollander's statement and Mr. Strong's evidence were concerned, that you are generally opposed to a gold standard and gold currency for India?—I am opposed, surely, to a gold currency for India, and indeed for any other country, because I consider that that is a backward step in monetary practice, and I do not believe there is sufficient gold available in the world to provide a gold currency and maintain something like the present level of prices. If we had less gold in the United States we should not have gold certificates in circulation. The people do not particularly desire the gold certificates. It is simply one way of putting aside a portion of this free gold to which I have referred. The gold standard does not seem to me to require a gold currency anywhere in the world. A gold standard in India I contemplate as a desirable outcome of your monetary development, but I hesitate to favour it until relations have been developed with some of the other gold-standard countries, and until there has been some further development of banking agencies. In other words, I regard it as desirable for the immediate future to return to the gold exchange standard, but to broaden it out and to establish certain banking agencies which are now lacking, and to transfer to those agencies the business now handled by the Treasury, and then to establish the gold standard; but I am unable to say how long these preliminary steps will take.

15,314. When you refer to the relations which should be established between other countries and India, I presume you refer to monetary relations. You refer to relations which exist now in Europe and as between America and Europe in the matter of international investments?—Yes.

15,315. You advise the development of that relationship?—I am not certain about the development of international investments in India. I rather think the position of India for a long time will be rather similar to that which was occupied by the United States until recent years; that is to say, that it will be a country in which a considerable amount of foreign capital will be invested, but which will not itself be investing very much in foreign countries; but if in the various enterprises in India a portion of the capital is secured in India and a portion of the capital of at least some of them is secured outside, then you have securities which may be sold back to India in years of particularly high prosperity in India. That would be a desirable development and would facilitate the functioning of the exchanges to meet varying situations. I do not regard that as a *sine qua non.* It is simply one of the possibilities of

meeting fluctuating demands for payment arising out of extreme fluctuations in the export surplus balance.

15,316. I quite recognise the fact that a considerable amount of foreign capital will be required for the exploitation or working of the resources of India. That is another point. But I would like to be enlightened by you on the point whether in virtue of India's favourable balance of trade she would be entitled to be paid in gold if she so desires, seeing that you could not expect India in its present state of development to go in for foreign investments as is done by other countries? India doubtless would be entitled to draw gold, but the question is whether it would be desirable from the Indian point of view to withdraw the gold. If you have developed certain agencies it will be possible to avoid or defer drawing the gold. On the other hand, in the absence of those agencies you will not only be entitled to draw gold, but you actually will withdraw it, and it makes for a lack of co-operation with the rest of the world which would render the functioning of the gold standard very unsatisfactory and compel protective measures. The gold standard, as I see it, is rather a delicate device. Upon gold is built up a vast structure of credit. If the foundation upon which this credit rests is subject to great disturbance, if some of the underpinning, or a considerable part of it, may be removed, it threatens the entire structure. Throughout the world we are building up and have built up this structure of credit rather on the assumption that slight influences of one sort and another will protest in each country the basic foundation, that is gold. This is desirable for all parties. But if you have no agencies in a particular country which is entitled to draw a lot of gold, able to exert an influence which will spread this demand over a considerable period of time, and perhaps defer it altogether, it may then become necessary for each country to endeavour to acquire a greater base and an excess of gold to meet this contingency.

15,317. (*Mr. Strong.*) May I make one extension to Dr. Sprague's remarks? India now does draw gold freely from the rest of the world in settlement of favourable balances of merchandise payments. In fact, for the last four years I think it is shown that India has taken about all the world's production of gold except such part as has been drawn into use for the arts and industry. The point which I would make about the draft on the world's gold through the establishment of a gold standard and a gold currency in India, arises from the differences in habits as well as in the banking structure of India from other banking nations. All the gold that comes to the United States pours into the Reserve Bank. It is mobilised, and in such control that in a period of adverse trade or at a time, if you please, when credit conditions in other parts of the world, owing to rise in interest rates and shortage of capital, induce a demand upon America for that gold, the accession of gold which we have had in former years on a favourable trade balance may be drawn upon by the rest of the world to fortify their own monetary position. Now, the question arises with India, if there is an immediate adoption of a complete gold standard, whether a gold circulation can be expected to result in such a mobilisation of the gold which India draws from the rest of the world so that it may be available when the sun does not shine on India, and the monsoon is not favourable for making payment to the rest of the world. This seems to me one of the arguments for deferring the full gold standard, for I should anticipate that the adoption of the full gold standard and gold circulation in India would result in the creation of a store of gold either in circulation or in store which would not be available to the bank of issue at a time when, because of the conditions in India or because of the conditions in the rest of the world, it was necessary for the protection of India's gold exchange and monetary position that gold should be exported from India.

15,318. Let us assume for a moment that India does not adopt a complete gold standard with gold currency, but only adopts a gold standard. Shall we have the sympathy and co-operation of the Reserve Bank of America in increasing our gold reserves for the success of that gold standard, and perhaps for an eventual partial gold currency in India?—I think I may answer that in this fashion, possibly. We ship a great deal of gold to India now. Any bank balance in the United States is capable of being converted into gold and taken to India. If, as a result of our trade with India, India gets command of dollars in America, and especially if the exchange rate enables her to do so without loss, India is in a position to command our gold as freely as any other nation. On the other hand, if India approaches the United States with a specific project which would require the employment of American credit to be converted into gold to be taken to India in support of that project, then it seems to me desirable in our mutual interest that we should examine the proposals of that plan to see whether, not only it is favourable to the Indian project and its accomplishment, but also what the re-action will be, not only upon the United States, but upon the general carrying out of the programme of monetary reconstruction. I had expected later in the hearing to express that matter in a little different way, if I might; but possibly this is the opportunity for doing it.

15,319. (*Chairman.*) You had better not anticipate anything which you are going to develop with more deliberation?—I am quite in your hands. It may be well to defer it.

15,320. Take the points in your own order?—It bears so directly on the question that I have mentioned it now.

15,321. (*Sir Maneckji Dadabhoy.*) I quite understand you. I do not expect America to help India to its own detriment, and I presume no country is expected to do that. Our experience of the monetary conditions and financial methods of European countries and even of America, in the past is sufficient to enable us to understand that that is wholly impracticable. But you yourself, in the course of your evidence, stated that there are opportunities for American capital being utilised for the restoration of the world's monetary position and the settlement of its many problems, and that America has practically decided to give gold for the reconstruction of Europe. If then the monetary instability of India is a question that is brought before the American nation, would the American nation hold back its hand and say that India does not fall within the scope of the plan of reconstruction which you yourself have so vividly laid before this Commission?—(*Dr. Sprague.*) I think that the Indian proposals would stand on the same basis as all the other proposals that are made. Each one would be considered with reference to its feasibility, and with reference to its working after the arrangement has been carried through. As I said before, it is a *sine qua non* of any such proposal being regarded with favour that it must, or should be, coupled with some arrangement for the development of a bank of issue which will in one way or another take over the responsibility for the currency, so that the flow of gold in and out of India will become subject in large measure to the same influences that affect the flow of gold in and out of the various countries which have operated the gold standard. It is not, I wish to emphasise, a question of the amount of the gold initially required. It is a question as to whether the proposal itself is going to establish something approaching the same kind of gold standard that we are familiar with in the western countries, and the difficulty which we see is in part due to the practice of storing silver and gold, and in part due to the absence of the agencies through which these influences are affecting the inflow and outflow of gold between the various countries of western Europe or the western world. (*Mr. Strong.*) May I interrupt once more?

15,322. (*Chairman.*) If you please?—I think, possibly, it would be desirable for me to express the position in a little different terms than have yet been used, because we are here discussing a monetary problem, and it might be enlightening if we express the same problem in the terms of a transaction. If India should approach the American market for a loan and for a large amount of gold for the purpose of a monetary programme, looking at it as a business transaction, I think it would be our duty to consider whether there were advantages or disadvantages for either or both parties. If it were that type of sound economic transaction which had advantages for both parties, I feel very sure that the American bankers would consider it in exactly the same light in which they have considered various other projects that have been submitted since the end of the war, such, for instance, as the German programme. In such event, it would hardly be necessary for us to appear before the Commission to discuss a monetary plan. We would be discussing a business programme for a loan, and I should hope that if the project appeared to be sound that something would result from it. If on the other hand the proposal appeared to be one where there were advantages to India but great disadvantages to the United States, I am sure everyone would understand the reluctance of the American bankers to enter upon a transaction where we would be doing injury to our own interests, even though there were advantages to India as a result. In that event I certainly would have felt rather reluctant to appear before this Commission. Now I apprehend, expressing this as a business transaction rather than a monetary inquiry, that the transaction would take neither of the two forms that I have described. In fact, before accepting the invitation of the Commission, we convinced ourselves that such a loan placed in America would do injury to both parties to the transaction; and upon that hypothesis I felt quite willing to appear before the Commission and explain our views. In fact, I think I am justified in expressing it possibly a little more impressively by saying this: that upon this specific project for India that has been submitted to us, if the progress of monetary reconstruction in Europe were further advanced than it is and more secure than it is, and if there were no considerable silver interests in the United States which would be affected, and we were approached with this particular project and asked to make large loans in order to furnish the gold to enable it to be undertaken, I think we would be very reluctant indeed to take the first step in a programme for India which we would regard as fundamentally harmful both for India, for the United States and for Europe.

15,323. That is rather a wide aspect of the situation; but I think perhaps it would be better if we developed the matter now by inviting you, if you care to, to amplify any of the matters which we have been dealing with. You have re-orientated now, as it were, the general aspects of the proposed scheme. I was wondering whether you would care to pick up now any of the other threads which were taken up and unravelled in the course of the evidence, in a more general way?—May I express very briefly what I had in mind as the project for the continuance of the hearing on my part?

15,324. If you please?—Professor Sprague has not completed his statement quite. I think it might serve the convenience of the Commission if upon the conclusion of his statement I would possibly amplify in some small measure the answers to the specific questionnaire, or answer questions as to any portion of the questionnaire on which the Commission would like to address questions to me; and then with much reservation, and possibly with the reservation of even eliminating it from the record, if it seemed wise to do so, to make a few rather disconnected suggestions about the Indian programme. At the conclusion of what I have to say, I will answer any questions, especially directed to our own experience in the United States in going through the experience which India is now facing, in thoroughly reorganising our own banking business at home and then conclude my own statement with a general summary of the important points which have been brought out in the course of the hearing.

15,325. (*Chairman.*) If you please. We will just see now if there are any further matters which my colleagues want to elicit on the evidence actually given by Professor Sprague, and not widen the scope until we have had the benefit of hearing Mr. Governor Strong's final statement.

15,326. (*Sir Maneckji Dadabhoy.*) I understand that the position comes to this: that you differentiate the case of India from that of the Western Countries of Europe, on the ground that any proposal involving the adoption of a gold standard for India is detrimental to the interests of America as a silver-producing country, since India now absorbs a large percentage of America's production of silver year after year?—Quite the contrary. (*Dr. Sprague.*) No. The silver is only one of the factors in the situation. I should say in the summary we admit that that is detrimental to the United States in so far as it affects silver, and we hold that it is detrimental to India in so far as it affects silver through the depreciation of the value of the uncoined silver held in India. On the gold side we are convinced that the scheme is premature, in the absence of the further development of banking, and disturbing to the rest of the world on that account, coupled with the presumed continuance of the practice of hoarding gold, which we believe will be only gradually modified. We hold that the gold standard is now premature, with the expression of the further view that we do not contemplate any time in the future when it will be desirable for India or for any other country to resort to gold currency, because we believe that that will involve a general decline in world prices.

15,327. Then your opinion is that India should at present and for a considerable time to come go in for a gold exchange standard and postpone the adoption of the gold standard?—For an uncertain period of time, perhaps not very long; India should go in for a gold exchange standard broadened out, and a further development of the banking agencies.

15,328. Let me tell you it will be the work of many generations to secure the development of banking habits in India on the same principle as is done in America or Europe. With that information placed before you, would you still maintain your view?—I should not think that many generations would be required for such developments in banking as would presumably render the working of a gold standard free from extreme disturbance so far as the rest of the world is concerned. I think I can answer that question by taking up my next point, and then bringing it back to the question you have raised. The plan contemplates the elimination of silver in large measure from the circulation of India. It favours gold currency, and also notes, and looks with disfavour upon the continued use of silver. This is indicated by the provision in the plan removing the legal tender quality from the rupee. Now American experience seems to me to furnish in the support for the view, that whatever currency you may have in a country should be retained. If you desire to change in any particular way your currency, the most feasible method is to increase, with the passage of the years, that particular kind of currency that you want, but do not attempt to eliminate the sort of currency which you have. In the United States we have a pleasing, and perhaps confusing, variety of currency, of which we have samples here which might interest members of the Commission. (The witness produced certain notes.) I would like to say a few words about each of these types of currency, all of which move about and circulate with the utmost freedom, most people not knowing the differ-

ence between the various kinds. The most venerable of these various types of money is the United States note familiarly known as the "green-back." It was issued during our Civil War, and was inconvertible for a period of 17 years. Specie payments were resumed in 1879; and the United States notes have continued to circulate. The next issue in point of time is the National Bank-note, every National Bank being authorised to issue National Bank-notes if secured by the deposit with the Government of certain issues of United States bonds. The banks alone are responsible for the redemption of those notes; but arrangements are made for their redemption through the Treasury in Washington. Our third type of paper money is the silver certificate. During the period of 15 years from 1879 on, the Government purchased month by month a certain quantity of silver, under legislation designed to support the value of silver at the traditional ratio with us of 16 to 1. The silver thus purchased was coined into silver dollars, which were of such a size as to be unacceptable to the people in general. For each silver certificate there is lodged in the Treasury the appropriate number of coined silver dollars. At one time, about 1893, our circulation was redundant in the sense that the combined amount of the United States notes, National Bank-notes, silver dollars and silver certificates, was such that it tended to make the level of prices too high, tending therefore to force out gold, lowering the supply of gold at the base to the apprehension point. After some years of difficulty, however, the situation improved. The country was growing in population; and it grew up to its supply of currency. Thereafter, for a considerable number of years, there was no possibility of increasing the aggregate circulating medium, except through an increase in the stock of gold. The Government no longer purchased silver. Green-backs were at the fixed amount that was outstanding when specie payments were resumed in 1879. The National Bank-notes could not be increased appreciably, because there were no available United States bonds possessing the circulation privilege. Consequently, practically all of the increased supply of money in the United States between the years 1896 and 1914 was in gold. We improved the average quality of our circulating medium by increasing the gold percentage of the total. Since the establishment of the Federal Reserve Bank we have had another type of paper money, the Federal Reserve notes issued by the Federal Reserve Banks, against which those banks must hold a gold reserve of 40 per cent. A very large part of the addition to the circulation in hand to hand use of the country that has taken place since 1913 has been in the form of Federal Reserve notes. The amount of gold certificates against gold has not appreciably changed if you take the entire period. It was reduced in the early years of the War, and has since been increased to something like the amount outstanding 10 or 12 years ago. In view of the parallel which this experience furnishes, I venture to suggest that in formulating any currency plans for India it would appear to be unnecessary to eliminate all or any considerable part of any kind of circulating medium now in common use. Particularly is this the case if you should decide upon a scheme of banking and monetary improvements which are to be developed gradually, as contrasted with an endeavour to transform the situation overnight, and to establish some quite different monetary plan. I believe it would be quite possible to leave the rupee, merely adopting the policy of making no further increase in the amount of coined rupees. You will find that, with the development of trade, the growth of population, and the passage of years, additional circulating medium will be needed, and that can take the form either of additional notes, or, possibly, even of gold in circulation. But that can come about gradually, involving no special change at any particular moment of time, and it would seem to me greatly to facilitate the development of banking agencies which will influence the monetary position if you start with what you have. I am not sure that that answers the question that you last raised, but I think it has some bearing upon it.

15,329. I quite see your point. I gather from what you say that, in adopting a new system of currency, we should not set aside the traditional form of currency which exists. That is your condition?—Yes, and not withdraw the legal tender quality from it.

15,330. So if we are in a position to devise a system of a gold standard with the maintenance of the silver rupee, we would then have the co-operation of the reserve banks of America in the development of our system?—I hesitate to answer any question like that, because one cannot judge until one has seen the concrete plan and studied it in all its detail; but I should think it would be regarded with a great deal of sympathy.

15,331. (*Mr. Preston.*) You stated a little while ago that you thought the best method for us to pursue would be to go back to our old gold exchange standard. Did I understand you correctly in that?—Yes, broadening it out.

15,332. (*Mr. Preston.*) But our gold exchange standard, I am afraid, has always been a misnomer. Correctly speaking, what we have in India to-day is a simple gold standard, that is, a gold standard without a gold currency. I would just like to exemplify that by reading the Report of the 1893 Conference: "If the Secretary of State for India, who had long been the largest seller of remittances of India, undertook to sell bills of exchange without limit of amount at 1s. 4⅛d. per rupee as a maximum rate, but also maintaining, though without formal notification, the practice of not selling below 1s. 3 29/32d. per rupee."

15,333. (*Chairman.*) What is that document?

15,334. (*Mr. Preston.*) This is the official document entitled, "Memorandum giving the history of Indian currency."*

15,335. (*Chairman.*) That is a document before the Commission.

15,336. (*Mr. Preston.*) Yes. So that we get the upper gold point and also the lower gold point at which rate it would work, taking the parity as 1s. 4d. The next point was that the British sovereign and half-sovereign were made legal tender at 15 and 7½ rupees, respectively, the rate then established being the equivalent of 1s. 4d. per rupee. Therefore, what we had was this. We had a top gold point of 1s. 4⅛d., and a bottom gold point for remittances, and we also were able to send sovereigns into India and obtain 15 rupees for our sovereigns. The trouble now is we cannot operate it because, as a result of the Babington-Smith Commission, they established a parity of 2s., and as present exchange is round about 1s. 6d., it is obvious we are not going to send sovereigns into India and take 10 rupees for the sovereign when we should be getting Rs. 13-3-4. Therefore, you will see that, practically speaking, we were almost a complete, simple gold standard, if it had been properly functioning?—I agree there is a very close approach in the gold exchange standard, as it is styled, to the gold standard; but there is at least this difference in the case of India: that your gold exchange standard seems to me to have been operated largely by the Indian Treasury and the India Office, and not by the banks.

15,337. That is the trouble from which we are suffering to-day. That is the exact trouble which a great percentage of the people of India have felt a good deal of difficulty with, and they desire at this particular stage of the financial history of India to have all such further difficulties removed and have it put down in black and white so that there will never be any departure from it in the future. That

* See Appendix No. 3.

is why several of my colleagues are so persistent in asking you about a simple gold standard for India? —I understand.

15,338. (*Chairman.*) That is rather a conclusion than a question. Is it possible to put the matter in the form of a question to assist the witness?

15,339. (*Mr. Preston.*) I will put it this way. Would that appeal to you as being at this period of India's history the continuance of an old system, and that it should be put on the Statute Book so that there shall be no departure in the future from the precepts thus laid down?—I suppose that raises the question of the rate.

15,340. Let us leave the rate outside?—I should think that could be put in a Statute, but I may say in amplification of my last answer that I do not see from a very close examination of this plan that the India Office and the India Treasury would be in any way divorced from handling the exchanges any more than they are now, or have been during the last 30 years.

15,341. (*Chairman.*) I am sure you will tell us at once if the questions are leading you beyond the region in which you want to be?—I presume they are leading me out of my depth. Perhaps that was the Chairman's impression.

15,342. (*Chairman.*) No, indeed not—very far from it.

15,343. (*Mr. Preston.*) I apologise most sincerely, but I assure you it was not with any intent to lead you out of your depth. I am sure I could never do that.

15,344. (*Sir Reginald Mant.*) I should like to ask you one question with regard to these notes which you have kindly shown us. Can you tell me whether all of these notes are legally convertible into either gold or silver dollars?—That is rather a long story. Practically there is no difference between the various kinds of money. Legally, there are certain differences: for example, the United States notes are legal tender, and for their redemption the United States Treasury holds a special gold reserve. They are never presented for redemption from that gold reserve, but they are constantly presented for exchange for new notes as they become worn. The legal tender feature is of no importance now. It formerly had this importance, that kinds of money that were legal tender could be counted as a part of the required reserves of banks before the reserve system. The other kinds of money could not be counted. The silver certificates are, I believe, legal tender. They are legally only converted into silver dollars, but it is the policy of the Government to maintain all kinds of currency at parity so that no one worries about that particular detail.

15,345. I was not referring to the question whether they are legal tender, but the question is whether they are legally convertible into actual coin. For instance, the Federal Reserve note says: "The United States of America will pay to the bearer on demand 20 dollars." Does that mean that they will pay, if he wants it, either gold or silver coin in exchange for that note?—That is a special provision which has a curious history. The Federal Reserve notes are redeemable by the Federal Reserve Banks. When that Act was passing through Congress there was acute division of opinion as to whether there should be any liability by the United States Government in connection with those notes. There was strong support for the view that they should be simply regarded as the obligation of the Federal Reserve Banks, but there were others who took the view that the issue of currency is in some way a Government function, and they desired that these notes should be obligations of the United States Government as well as obligations of the Federal Reserve Banks. Consequently, you have that phraseology there, but it has no practical significance.

15,346. Perhaps I might make the point of my question clear if I explain that it has been suggested to us that the paper currency in India which is at present legally convertible into silver rupees should no longer be so convertible. I was trying to ascertain whether, although in practice the silver dollar it not demanded for notes, there is a legal obligation on the Federal Reserve Board to give anyone who demands it silver dollars in exchange for paper notes?—They are payable in gold, certainly not payable in silver dollars: that is, one does not have an option of securing either gold or silver dollars for the Federal Reserve note. The question has not, I think, presented itself as of any practical importance in our experience. It conceivably might have done so in 1920 if the bullion value of our silver dollars had become appreciably greater than the coin value. In that case conceivably people might have presented their silver certificates to secure silver dollars from the Treasury. Inasmuch as they are really nothing more than warehouse receipts it would have created no inconvenience to the Treasury. It would simply have created a certain vacuum in the circulating medium which would readily have been filled up by the issue of additional Federal Reserve notes. But inasmuch as the quantity of silver certificates is small relative to the aggregate circulation it does not present the sort of problem which I judge you are considering and which becomes of importance owing to the very large amount of notes of one type that are in question, and might, I suppose, be presented for rupees in the event that the metallic or bullion value of the rupee became greater than its coin value.

15,347. You said, I think, that a man who holds a 20-dollar Federal Reserve note could not claim either silver or gold. Do you mean that he could not claim at his option to be given a particular form of coin, but can he demand to be paid in coin of some sort?—Yes.

15,348. He can?—Yes.

15,349. It is at the option of the Bank to give him gold or silver?—Yes. Practically it is gold since the Reserve Banks are only required to hold gold. Perhaps Governor Strong can state that more certainly, but I do not think you could insist upon redeeming Federal Reserve notes in green-backs.—(*Mr. Strong.*) There are two provisions of the law which apply to the question which Sir Reginald Mant asks. In the late '90's Congress passed an Act requiring the Secretary of the Treasury to maintain all forms of money in circulation in the United States at parity—at parity with gold, in point of fact. The other provision of the law is contained in the Federal Reserve Act which requires the Federal Reserve Bank to retire their notes on presentation at the Bank either in gold or in legal tender money, the legal tender money referred to by the Statute being either United States notes or silver certificates. If they are retired in United States notes the holder can then present them at the Treasury at Washington and get gold in return. If retired in silver certificates, these warehouse receipts, under the Mandate of Congress to the Secretary of the Treasury, no silver dollar is given in exchange, but, in fact, there is a Mandate to give gold for silver certificates if the demand for gold is made. In practice, however, since the organisation of the Reserve Banks all forms of money in circulation must be convertible into gold for this reason: that the silver certificates and the United States notes—that is, the green backs—must be received on deposit by the Federal Reserve Banks if tendered and they are actually part of their legal reserves. Now any Bank with a balance at the Federal Reserve Bank can get gold for that bullion. In other words, he can convert these various types of currency in common circulation into bullion at the Federal Reserve Bank and then convert that bullion into gold. Now the direction by Congress to the Reserve Banks, or, at least, the provision in the law requiring the Reserve Banks to redeem in gold or legal tender money, is modified by another provision which requires the

Treasury to redeem the notes only in gold at Washington, and it requires the Federal Reserve Banks to maintain a gold redemption fund in the Treasury of such percentage of the demand as the Secretary of the Treasury may require. So that the combination of the various provisions of the law requiring the maintenance of the parity of all forms of money and requiring the redemption of the various forms of money at different places ultimately gets back to a gold demand in point of fact, and in practice the Reserve Banks give gold on demand to anyone presenting either a cheque on a Bank or any other of the forms of currency in circulation. Does that answer your question?

15.350. (*Sir Reginald Mant.*) I think that makes it quite clear.

15,351. (*Professor Coyajee.*) Will you amplify a little the analysis of the peculiarities of the working of a gold standard in a country that is hoarding? Would it work in a peculiar manner in a gold standard country where you have the existence of hoards—because the hoards might come out on certain occasions (like periods of speculation, or famines) and so cause rises in prices and also affect the balance of trade. — (*Dr. Sprague.*) Yes, I have in mind a reverse situation; a prosperous condition which I think is more likely to prove the disturbing factor. If I may again illustrate from American experience in periods of prosperity and of large and even abnormal exports of merchandise, as gold drifted in, it would have an immediate and decided effect upon the banking position making for easy money rates and liberal loans on the part of banks, and a tendency in consequence for prices to advance, thus setting in motion those forces which would tend to restore equilibrium. The functioning of the gold standard in the specific conditions seems to me to presuppose that gold movements will quickly set in motion influences tending to restore an equilibrium between various trading nations, partly through the upward movement of prices and the easy money in a country receiving the gold, and through the reverse influences operating in the country shipping gold. It tends to keep all the countries pretty nearly in a balanced situation. If a country that hoards gold has an abnormal export surplus and the gold flows in, the influences are at once set at work in the purchasing countries which lose the gold, tending to high money rates and depressed prices; but the opposite influences of an easy money market and rising prices may not be very much felt if prosperous producers in the country in question simply hoard away the gold, and it does not enter into banking and business use. Therefore, I should expect that the importation of, say, 100 millions of dollars to India, the result of an abnormal export surplus, would not set in motion the corrective influences to quite the same extent that they would be set in motion if a similar amount or an amount proportionate to the relative population had been exported, let us say, from Europe to the United States. You do not get that delicate adjustment quite to the same extent if this monetary material may, instead of going into banks, go into hoards. Now, in the case of a reverse movement, I am not at all certain to what extent the gold would flow out of the hoards. I do not think it would flow out as immediately as might be desired. Rather I should fear that it would flow out of the banks, making for a strain on such banking machinery as has been developed and only after a period of pretty considerable and severe strain extracting very much of the gold from hoards. In both directions you have not got that interrelation of influences which seem to me to be essential for the satisfactory functioning of a world gold-standard mechanism.

15,352. (*Sir Alexander Murray.*) Among the notes you have been good enough to show us I see you have a Federal Reserve note. Is not there also a Federal Reserve bank note?—There are no Federal Reserve bank notes being issued at the present time. Provision was made in the Reserve Act for the issue of Federal Reserve bank notes since it was contemplated that the national bank notes might be gradually retired; there were 700 million of those, and it was not quite certain that there would be a sufficient basis in the operation of the Federal Reserve banks for the steady issue of 700 millions of Federal Reserve notes to fill that vacuum. Consequently there was a provision in the Act enabling the Reserve banks to issue Federal Reserve bank notes under very much the same conditions that the national banks issue their national bank notes. A few millions of those were issued in 1915 and 1916, and a very considerable quantity were issued in 1919 and 1920 when silver certificates were withdrawn from circulation in order to secure silver dollars to be exported to India. The vacuum created by the cancellation of those silver certificates was filled up by the issue of Federal Reserve bank notes against which security was lodged with the Government by the Federal Reserve banks. After the war the Government under the Pittman Act was obliged to repurchase an amount of silver equivalent to the amount that had been exported through the break-up of the silver dollars, and was further obliged to pay the silver-mine people not less than one dollar an ounce for this silver that it was buying to replace the silver dollars, and so the silver certificates. As this process was completed the Federal Reserve bank notes were retired, and now there are only a few remaining in circulation.

15,353. Only the Federal Reserve note is in circulation now?—Yes.

15,354. And the Federal Reserve note is convertible at the bank, I understand from Governor Strong, either in gold or in legal tender money, and at Washington in gold only. I understand that legal tender money includes dollars?—(*Mr. Strong.*) It includes United States notes, the so-called greenbacks, and silver certificates.

15,355. And silver dollars?—And silver dollars.

15,356. A bank has in its option, therefore, the right to give in exchange for any of these notes silver dollars?—Yes.

15,357. Do the banks generally accept silver dollars in America?—They not only do not care to accept them, but there is no public demand for them. A recent effort was made by the Treasury to economise in the use of small paper money by putting silver dollars in circulation, which was completely unsuccessful. In practice we do not pay silver dollars. In fact, we would find it quite difficult to do so because we have no silver dollars at the bank to pay with; we only have silver certificates.

15,358. That is what I wished to know. I could come to your bank with notes, and I could ask from you silver dollars, and you really are bound to pay me legal tender money which includes silver dollars? —No; silver certificates.

15,359. And silver dollars, too?—We can meet our obligation to redeem in "legal tender" money by paying any form of legal tender money.

15,360. That is the point I wish to make clear. When I come to your bank to convert my notes, you have the option to give me legal tender money which includes silver dollars, I cannot demand from you silver dollars?—No.

15,361. If I demand them from you, you would not have them to give me?—I would have silver certificates up to a certain reasonable limited supply.

15,362. But we are speaking of silver dollars. You would not have silver dollars to give me?—We would give you a receipt for silver dollars, which you would then present to the Treasury, and get silver dollars.

15,363. That is the point I wish to make. When I go to the Federal Reserve Bank to get my note converted, and I wish to get silver dollars, you give me silver notes, and with those silver notes I go to the Treasury, and there I get silver dollars?—Yes; and those are legal tender.

15,364. And the Treasury has to give me these silver dollars in exchange for my silver certificates?—Yes.

15,365. Or green-backs, as the case may be?—For green-backs a different form of payment would be made. The green-backs are now in point of fact redeemable in gold. The only difference is that for each silver certificate there is a specific silver dollar in the Treasury. For redemption of the green-backs, of which 346 millions are outstanding, there is now about 195,000,000 dollars in the Treasury; and if the Treasury were called upon to redeem the green-backs, they would undoubtedly redeem them in gold, if metallic money redemption were required. Then under the law the Treasury could again put these same green-backs into circulation, or the Treasury could deposit green-backs with us and get gold back from us, and restore the funds held in the Treasury for the redemption of the green-backs.

15,366. (*Chairman.*) We have had an opportunity since last time of reading Professor Hollander's evidence given on the last occasion. I do not know whether there are any questions which anyone may desire to put, because I think you might take this opportunity of asking Professor Hollander to deal with them. Personally I do not think I require any further elucidation of the very lucid statement given by Professor Hollander.

15,367. (*Professor Coyajee.*) I do not know whether, taking these charts of prices which we have been provided with, the explanation of them will come from Professor Hollander?

15,368. (*Chairman.*) I do not think that Professor Hollander was dealing with those.

15,369. (*Professor Coyajee.*) There is one point on the Gold chart, Chart 5, on which I should like some information.

15,370. (*Chairman.*) Before we come to the chart, I should like to see if there is anybody who wishes any further elucidation of Professor Hollander's discourse. I do not think there seems to be anybody who desires any further elucidation. What is your point about the chart.*

15,371. (*Professor Coyajee.*) If you look at the curve of prices of farm products, you will see the prices of those farm-products were above general prices up to 1920. Since then they have fallen below the general prices. It has been stated before the Commission that this is a world-wide phenomenon—this peculiar fall in agricultural prices. Has Professor Hollander, or any of his colleagues, any explanation to offer of the phenomenon that agrarian prices have fallen below the range of general prices since 1920?—(*Dr. Hollander.*) It is a matter which is much in dispute. The general opinion, I think, is that farm products have shown less power of recovery from the war supply than other commodities.

15,372. The supply was inelastic?—Yes. Moreover, the number of farm products is relatively smaller than that of all commodities, and naturally there would be less corrective influence owing to the smaller number determining the average.

*See p. 282 *above*.

15,373. Do you know if that is a phenomenon which is confined to the States, or whether it has been observed in other countries after the war—I mean the fall of agrarian prices since the war?—Well, I do not know as to the experience of other countries after this war; but it is a common consequence that after a period of war, farm products seem to suffer in a greater degree from the post-war correction of prices. Naturally as essentials their production has been stimulated during the war, either by bonuses or by price fixing, or by the natural advance of prices, and there is a greater inelasticity in the correction of them.

15,374. The result being that in the general exchange between the agriculturist as such and the manufacturer as such, the position of the agriculturist has become worse for some years; it has deteriorated for some years?—Do you mean in the United States, or in the world at large?

15,375. In the United States, looking at the chart at present?—Yes; but there is a difference of opinion as to that. The condition of the farmer is perhaps more vehemently expressed; and his situation is complicated by matters of indebtedness for land purchase. His complaint perhaps is concentrated owing to the fact that in important areas agriculture is largely a one-product cultivation. In the South it is cotton; in the North-West it is wheat; and in the Middle West it is corn. So we have less of a balanced condition than in ordinary industry. When we speak of industrial depression, we would not use the term as applied to a particular type of industry; but a bad cotton market means agricultural depression in the South, and a low price of corn means distress in the Middle West

15,376. (*Chairman.*) Is there anything which you would like to add to what we have been discussing to-day?—I think not, until my associates have completed their testimony. If anything should remain, I could add it then.

15,377. We shall on a subsequent occasion receive some further assistance in the course of our proceedings from you, Governor Strong?—(*Mr. Strong.*) Yes. May I inquire whether it would suit the wishes of the Commission to have my views rather generally than to deal precisely with the questionnaire, as it seems to have been covered so completely by the evidence?

15,378. I think so. I shall hope that you may be able to amplify any of the matters which seem to you to require amplification or addition, and then deal with those further matters to which you referred in the course of your observations to-day?—The amplification which I had in mind had more to do with the relation the operations of the Federal Reserve system bears to some of these particular matters, which I thought might be interesting to the Committee.

15,379. Quite so. I do not think you need trouble, after the very full assistance which we have already received, to go through the detailed questionnaire again?—Quite so.

(*The witnesses withdrew.*)

# FIFTIETH DAY.

## Tuesday, 11th May, 1926.

PRESENT:

The RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER. } (*Secretaries*).
Mr. A. AYANGAR. }

Mr. BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York); Dr. JACOB H. HOLLANDER (Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland); and Dr. OLIVER M. W. SPRAGUE (Professor of Banking and Finance, Harvard University, Cambridge, Mass); accompanied by Mr. ROBERT. B. WARREN (of the Federal Reserve Bank of New York), recalled and further examined.

15,380. (*Chairman.*) Governor Strong, we are looking forward to-day to the benefit of your assistance on some of the wider aspects of the scheme, first of all in regard to some which relate more particularly to the gold market. Is this a convenient point at which to resume your consideration of the subject?—(*Mr. Strong.*) Yes, Mr. Chairman.

15,381. (*Mr. Strong.*) (i) Reviewing the questionnaire after yesterday's session it became apparent that there was very little which I might discuss without repetition, and, if agreeable to you, what I shall say to-day will be specifically directed to the question of, and will relate entirely to, the gold position in the United States. The circulation of gold—that is, of gold coin—in the United States is really controlled to-day by considerations of habit and convenience which have not been characteristic of the gold coin circulation in countries which had such a circulation before the war. In England, for instance, the smallest denomination of note issue by the Bank of England was £5, and the intermediate circulation was sovereigns and half-soverigns. The determination of the relative amount of circulation of these two kinds of money was really fixed automatically by the requirements of the country's trade. If smaller denomination money were required below the £5 Bank Note, it took the form of a low-value coin. In the United States we have not had a situation where what I might describe as the saturation point of those two kinds of currency has ever been reached, for the reason that with the great variety of paper money in circulation, issued in all denominations, there was no true economic demand for gold coin of, say, $5, $10 and $20 denominations in order to conduct the country's trade. National Bank Notes, for instance, were issued in denominations of $5, $10 and $20, and higher. The same was true of the silver certificates which you saw yesterday, which are issued in $1, $5, $10 and $20 denominations and higher; and the same in fact was true of the so-called Greenhacks. The situation prior to the war and since the war has really heen this—that in order to induce the circulation of gold coin it would he necessary to discontinue the printing of all kinds of paper money of those three denominations; and the introduction of a gold coin currency into circulation would have been a cause of great inconvenience and complaint by the puhlic. That may be illustrated by my telling you that the chief paper money circulation in the country consists of $5 notes of the various kinds which we issue, and the next in order are $10 and $20. At the Federal Reserve Bank of New York we receive on deposit every day from the Banks something like 20 million of this paper money, and we pay out in round figures about 20 million dollars of this paper money—a very large part of it consisting of notes of $5, $10 and $20 denomination. We also receive every day, through the mail and by express from out of town Banks in our district on the average about 500 shipments of paper money, and we ship out to our Member Banks about 500 shipments of paper money, largely consisting of these denominations. If those shipments and those deposits and withdrawals all had to be made in gold coin, the expense and inconvenience of handling it would be tremendous. So, as I say, the circulation of gold coin in the United States is very largely determined by hahit—that is the habit of using paper money—and by convenience in handling a form of money which is very much more economical to transport and carry about than is gold coin. I should like at this point to refer to something which I observed myself when in India in 1920, which may have some bearing. We have a large problem of internal payments to make in the United States between the different districts, just as exists in India, and I recall being told when in India, when the rupee Note was gaining its popularity in 1920, that the very large denomination Notes actually brought a premium because of the convenience that they afforded in effecting transfers. There being no demand for gold coin circulation, wonder is sometimes expressed at the very large circulation of paper money representing gold coin; that is, the gold certificates, and I should like to describe the policy which has applied to that since the outbreak of the war. When the reserves of Memher Banks were assemhled in the Federal Reserve Banks, a large part was paid in in gold—that is, in these gold certificates, and some small amount in gold coin. There was left in circulation, however, as hand-to-hand money a large amount of gold certificates, and there was left in the reserves of non-Memher Banks (that is, the State Banks which did not join the Federal Reserve system) a considerable further amount. The total of gold certificates in circulation before the war was, in round figures, ahout $900 million, other forms of money constituting the rest of the circulating medium. We thought it was wise in order to lay a foundation for possihly extensive operations in financing the war, to assemhle as much of this gold as possihle in the reserve banks, and without describing the details of the operation, we issued Federal Reserve Notes in exchange for gold, and thereby further reduced the outstanding amount of gold certificates in circulation and in the hands of hanks

to about $200 million. That helped to build up the reserves of the Reserve Banks. Then we had this great accession to our gold stock, largely represented by issues of gold certificates by the Treasury. When the war ended and matters returned more nearly to normal, we had to decide upon a policy as to the circulation of this gold, practically all of it at that time being out of circulation and in the reserves of the Reserve Banks in the form of gold certificates. So we have now restored to circulation substantially the total which was in circulation before the war; in fact, the circulation of gold certificates to-day is roughly one billion dollars. I would like to describe the reasons which led us to do so. The first was that the almost complete disappearance of gold certificates—which are readily distinguished from other forms of paper money because they are printed with yellow backs—led us to fear that there might grow up a feeling of discrimination or preference in the minds of the public between the different kinds of money in circulation—an unsatisfactory feeling to develop about the currency. The way to overcome that was to put gold certificates freely into circulation, which was done. That was the first reason. The second reason was the idea conveyed in regard to the very large gold reserves of the Reserve Banks and the very high percentage of reserve at a time when there was prevalent, especially in the agricultural sections, a feeling that possibly it would be a good thing for the country to have some expansion of credit; that in some way it would lift us out of the difficulties of that period. It did not seem well that the Reserve Banks should show so large a bulk of gold, nor in fact so high a perecentage of reserve; and the effect of paying out some 700 million or 800 million of our gold reserve was to reduce it to a less spectacular figure, if you please. The third reason was rather more important than either of the other two. In a country which has, say, a saturation point in the circulation of gold, any movement of gold into the country or out of the country in a well-organised central banking system is instantly reflected in the reserve of the Central Bank. With no point of saturation in the circulation of gold (because of the existence of this large volume of other kinds of money of similar denomination) unless the amount of gold certificates in circulation was carefully fixed at a definite figure and maintained there, we would have two fluctuating funds of gold—one, the amount in circulation, and the other in the reserves of the Reserve Banks. The reserve percentage of the Reserve Banks would therefore be no indication of the gold movement whatever. In fact, it might be possible, by a careful adjustment of payments by the Reserve Banks in meeting the demands of the circulation, to maintain the percentage of the Reserve Bank at almost an absolutely fixed figure and have the fluctuation in the country's gold supply occur entirely in the gold certificates in circulation. So as a matter of policy we determined to endeavour to fix the amount in circulation at a definite non-fluctuating sum, and as gold imports or gold exports occurred, they would show at once in the reserves of the Reserve Bank. The fourth reason was of this character. A long continued period of a high reserve in the Federal Reserve Banks, say, at 80 or even 85 per cent., might induce a state of mind in the public which I might describe as raising the apprehension point; in other words, a sudden loss of gold by export which would reduce the reserves of the Reserve Banks by, say, 20 per cent.—from 85 per cent. to 65 per cent.—might bring about the same reaction in the minds of the public as would a sudden reduction of reserve from 65 per cent. to 45 per cent. Recognising that the percentage of reserves of the Reserve Banks, as I described the other day, were necessarily large and possibly unduly large, we wished to be in a position first that we were not operatinig on an unduly large reserve, and second, that if any sudden decline in the reserve did occur, it could be compensated by gradually taking the gold out of circulation. It is a rather unlikely occurrence. It is hardly possible to conceive of a loss of gold which would reduce the reserves of the Reserve Banks suddenly by as much as 20 per cent., but with this great mass of gold in the hands of the Reserve Banks, and with a large mass in circulation, it certainly would appear to be a more conservative policy to have this compensating fund in circulation upon which we could draw in case of need to build up our reserve and soften the shock of a very large loss of gold. That, if you please, explains somewhat the policy of the Reserve Banks in maintaining a large circulation of gold certificates and a somewhat lower percentage of reserve than they otherwise might have done.

(ii) Now as to the question of the redundancy of this gold. It is a fact that, notwithstanding the very large increase in the amount of gold held in the country, there has been no considerable increase in the total percentage of monetary gold to the total deposit liabilities of all the commercial banks of the country. The expansion of credit has kept pace with the accession to our gold stock. The reason why it is possible to say that we now have an amount of free gold (not redundant, it is all functioning in our system), but which, under favourable circumstances, might be spared from our system—is due to the fact that the reserves of the banking system prior to the organisation of the Federal Reserve System were scattered among some 28,000 or 30,000 different banks while now they are largely concentrated in the Reserve Banks. There was no economy in the use of reserve money, and the organisation of the Federal Reserve Banks in assembling it in one great body of course creates a very much more secure banking position than existed under the system of isolated separate reserves by each separate commercial bank, State and National. The reserve position was somewhat weakened before the war by the fact that many banks carried a portion of their reserves on deposit with other commercial banks, so that there was a pyramid of deposit liabilities on the individual reserves of the different commercial banks. In fact, when the Reserve Act was passed it was felt that the economy in the use of gold brought about by its organisation in the hands of the Reserve Banks justified a very considerable lowering of the amount of reserves required to be kept by the State and National Banks which became members of the Federal Reserve System. That is, the National Banks, all of which are members, and the State Banks, some of which became members.

(iii) A question appeared in the Questionnaire relating to the probable rate of increase in the demand for monetary gold with the growth of business and bank deposit liabilities. I do not think it is possible to apply any rule by mathematical computation. One computation has been made, I believe, which indicates that the probable increased demand will be about $2\frac{8}{10}$ per cent. To show how illusive any such calculation is liable to be, one should consider the enormous changes that have taken place in the reserve position in the United States. Prior to the adoption of the Federal Reserve Act, commercial banks in the cities of New York, Chicago and St. Louis (the largest banking centres in the country) wero required to keep 25 per cent. reserve in cash in their own vaults. Banks in New York and Chicago are now required to keep but 13 per cent. on deposit in the Federal Reserve Banks, and those in St. Louis but 10 per cent. That is the highest reserve requirement of any member Bank. The banks located in some 75 or 100 reserve cities, so called (that is the next smaller cities) are required to keep but 10 per cent. reserve on deposit in the Reserve Banks as against 25 per cent. before the Reserve Act was adopted, of which 25 per cent. 15 per cent. might be on deposit with other banks. The banks in all other towns and cities are now required to keep but 7 per cent. as against 15 per cent. before the Reserve Act was adopted. Such a reduction in reserve requirements would serve to off-set an annual

increased demand for reserved money for our banking system for a considerable period. This is true also as to other possible developments. I might illustrate it by referring to our present practice at home in dealing with the collection of cheques. A suit was recently brought by a bank, or a group of banks, to require the Federal Reserve Banks to give immediate credit upon cheques deposited with the Reserve Bank by Member Banks. Had that suit been successful it would have had the effect of adding about $800 million to the reserves of our Member Banks without any change in the quantity of gold in the country at all. That, again, would have been equivalent to a number of years additional reserve requirements for gold by the banking system. Perhaps some questions might be asked now with regard to this particular matter.

15,382. (*Sir Reginald Mant.*) Mr. Strong, you told us that the Federal Reserve Banks withdrew a large number of gold certificates. Will you tell us how the banks can get them in and give them out at will? Does it not depend on whether the public want gold certificates or not?—You mean the Federal Reserve Banks?

15,383. Yes. How do they increase or decrease the circulation of gold certificates?—If any peculiar value, sentimental or otherwise, attached in the minds of the people to a gold certificate as distinguished from any other type of paper money, then some difficulty might be encountered. People would sort them out and keep the gold certificates and pay out other kinds of money. That was one of the reasons—to prevent any such development—which led us to put them freely into circulation. Now people do not distinguish, and there is no habit of sorting. So that as money becomes either redundant—more than is required for the circulation—or as it wears out, it is returned to the Federal Reserve Banks, and there we have the task of sorting out that which is unfit for further circulation and sorting it both as to kinds and as to denominations. Then if we simply discontinue paying out the gold certificates and satisfy the demand for fresh money with other forms of paper money, we very rapidly accumulate the gold in the Reserve Banks again. It is an automatic operation.

15,384. You have answered my question really by saying that the people are indifferent; they do not mind which sort of Note they hold?—They are quite indifferent.

15,385. (*Sir Henry Strakosch.*) What has been puzzling a good many of us is the differentiation in requirements for depositing a certain percentage of the liabilities of the commercial banks with the reserve bank in the various reserve towns. You have mentioned that in the great centres 10 per cent. of the demand liabilities have to be deposited by statute in the Federal Reserve Bank, while in the minor centres a lower percentage has to be deposited. What is exactly the reason of that differentiation?—That question fits exactly into some of my subsequent remarks, and it may be that if it is introduced there it will complete the statement on that point better than if it is introduced here. Would it be satisfactory to defer it until then?

15,386. Yes; I will ask you the question at that point. Then you referred to the reduced reserve needs since the introduction of the Federal Reserve system, and you mentioned that before the Federal Reserve system was introduced the National Banks had to hold 25 per cent. of their liabilities in reserve?—In the three central reserve cities of Chicago, New York and St. Louis.

15,387. With this smaller ratio of reserves do you regard the situation as satisfactory as it was before the introduction of the Federal Reserve system?—Yes, I regard it quite as satisfactory, and even more so, for the reason, first, that the reserve is mobilised with the reserve banks, and, second, because the reserve banks are now capable of meeting a sudden increased demand for currency by issues of Federal Reserve notes against discounts of Member Banks. The difficulty prior to the establishment of the Federal Reserve system was that without any capacity for expansion of the note issue the only way a Member Bank could meet a demand was by paying out its reserve and, when anything like panicky conditions arose, such as occurred in 1893 and 1907, the banks hoarded their reserves; they would not pay them out. On both of those occasions we had a premium on currency. Now that we have a central reserve fund and a capacity to meet any demand for currency, that situation does not arise. It certainly would have arisen during the war if there had been no Federal Reserve system with capacity to meet almost unlimited demand.

15,388. That, you would say, is one of the great benefits of a central banking system in a country?—I should say it is essential to any modern banking system.

15,389. To have the banking and currency reserve centralised within one institution?—Yes.

15,390. (*Sir Maneckji Dadabhoy.*) I want to ask you one or two questions by way of information. I understand the United States started on a gold standard in 1897?—I am not sure of the year, but I think the Act to which reference was made the other day, requiring the Secretary of the Treasury to maintain all forms of money in circulation at par, was passed in 1898 and I think it may be generally stated, overlooking the peculiarities of our system as to details, that the gold standard became firmly established with the adoption of that Act.

15,391. When you started a gold standard did you have some form of gold currency at the initial stage?—We had a circulation of gold on the Pacific Coast only, of any consequence. All the other gold circulation in the country was in the form of gold certificates.

15,392. How do you distinguish the term "saturation point" from "redundancy"?—I would like to adopt Dr. Sprague's definition which he made to my entire satisfaction the other day. I should say that free gold is, as I have described, expressed by an unduly large reserve percentage in the central bank, and that a redundancy is an excess over the requirements of the nation for conducting a given amount of business at a given price level.

15,393. (*Chairman.*) Now, Mr. Governor, I understand you are willing to cast the net a little wider, in your discussion of the matter?—Mr. Chairman, if I may do so, it may be of value at this point in the record for me to make a summary of the various points to which we have given some emphasis in the statements made in regard to the plan submitted and the questions raised by the questionnaire. After that I will proceed to a discussion of other matters.

15,354. (*Chairman.*) If you please?

15,395. (*Mr. Strong.*) (i) I have been asked to elaborate a little one part of my statement in regard to gold coin circulation. I referred to the fact that gold coin had circulated on the Pacific Coast as distinguished from gold certificates. This was the outgrowth of the gold discoveries on the Pacific Coast in about 1849. The immense unoccupied territory between the Eastern sources of supply of gold coin and paper money made it, of course, difficult to introduce a circulating medium in a part of the country which was growing very rapidly under the impulse of the gold discoveries, and in the early days of the mining camp period of the Far West the currency was in the form of small nuggets of gold taken from placer mines. Every store had scales where the gold was weighed, and people actually made their payments with the gold as it was taken from the placers. The next development was a rather irregular coinage of this gold by private persons on the Pacific Coast. Some of the coins, although rather crude, had quite a wide circulation. Some of them were of good workmanship, and are still treasured as souvenirs of the early days of the development of the West. This habit of gold coin circulation grew, and later a Mint was established in Denver, and gold coin came to be

put quite largely into circulation. The habit of the use of gold coin on the Pacific Coast did not finally disappear until the Federal Reserve Bank in San Francisco furnished adequate supplies of gold certificates and other forms of money. Then gold coin was largely withdrawn from circulation and paper money substituted, although it was a task of some difficulty, because that coin had been in circulation for so many years that almost all of it was abraded below the limit of tolerance. The holders of the coins did not like to turn them in and assume their abrasion loss, so the Federal Reserve Bank of San Francisco assumed that loss. The gold coin came in, and is now practically out of circulation even in California.

(ii) You have now heard a discussion of the gold-standard plan and our replies to the specific questionnaire prepared as a guide in the expression of our views. As the hearings have occupied some days, we shall now submit a resumé of those points to which, in our opinion, particular weight may be given in considering the evidence submitted.

(iii) First, as to *Silver*, (*a*) the consequence of the plan will be to direct a blow at the price of silver, the force of which cannot be forecast, but which can certainly be estimated as greater than suggested by the price of 24d. per ounce. (*b*) The effects upon the Indian people who have accumulated a great part of their savings in a vast store of silver bullion cannot be otherwise than unfortunate. We should expect great dissatisfaction among the Indian people because of direct loss through positive action of Government imposed upon the holders of a store of value the use of which is so intimately wrapped up in the social and ceremonial customs of a large part of the population. This feeling might well be the strongest amongst those whose savings were the fruits of the greatest self-denial. (*c*) The proposal to avert the loss by an import duty imposed in an effort to maintain the domestic price irrespective of the world price of silver, would in our opinion be likely to fail, more probably at those times when, because of adverse trade or poor crops, an unusual amount of silver was pressed for sale. Further, even if the plan were successful in maintaining the domestic price of silver, it would seem to be equally open to objection if it depended for its success upon disposing of the silver reserve to the Indian people at an artificial price maintained by an import duty. (*d*) In general, it is our conviction that any plan for monetary and currency reform in India should, as one of its objects, seek to protect the value of these savings in uncoined silver, rather than to threaten or to risk their depreciation. (*e*) The plan for the disposal of the silver, in addition to contemplating its sale for the purpose of purchasing gold, proposes reducing the legal tender quality of all the coined rupees remaining in circulation to payments not exceeding, say, 50 rupees. We question the advisability of attempting any limitation in the usefulness of currency of the existing stock of a type of money which has been in common circulation among the Indian people for generations. (*f*) The plan of necessity will require, either immediately or ultimately, by one method or another, a large draft upon the gold reserves of the United States. We do not believe that it can be assumed that the requisite credits can be obtained readily, if in fact at all, in view of the disastrous effects which might ensue to an important American industry. Indeed, it would appear that in certain respects the unfortunate consequences of the plan would be shared alike in India and in the United States, as it would cause a great depreciation in the value of the savings of the Indian people and a like depreciation in the value of investments in American industries. It happens that the present value of the store of silver estimated to be in the hands of the Indian people at least equals, and probably exceeds, the amount invested in silver-producing industry in America.

(iv) As to *Gold*, (*a*) we consider it possible, indeed likely, that the ultimate total amount of gold required has been underestimated, and that the immediate demand for gold for the operation of the plan will be greater in the first stages than that for which provision is made. (*b*) If this is true, the total amount of credit ultimately required will be larger than anticipated, and further the security of the plan will necessitate an increase in the estimates of the sums for which contracts must be made at its inception, this being due to (1) an overestimate of the amount of funds to be realised on the sale of silver, (2) an underestimate of the amount of rupees liable to be presented for conversion. (*c*) The plan suggests possible loss of confidence by the Indian people in the value of silver as a store of savings, and would to that degree induce an enlarged absorption of gold for non-monetary purposes and again augment the gold requirements of the plan, with a consequent increase in the demands upon the gold reserves of the rest of the world. (*d*) The strictly fiscal effects of the plan in India we shall not attempt to estimate, but merely point out generally that the cost would presumably be greater than calculated, especially at the ouset and over a longer period, if the full impact of the demand for gold was felt at the inauguration of the plan.

(v) As to *External Effects* involved in setting up the plan, (*a*) gold must be drawn either directly or indirectly from the United States. (*b*) Indirect withdrawal would follow upon the flotation of an Indian loan in Europe. The effort to protect European reserves would involve higher discount rates and drastic credit contractions, probably of such severity as to occasion a decline in prices. This train of events might threaten the maintenance of the gold standard in such European countries as have already adopted it, and defer its extension to other European countries. (*c*) Direct withdrawal of gold from the United States would create no credit difficulties, if the Federal Reserve banks were willing to enlarge open-market investments to the full amount of the gold withdrawn—but such co-operation would be impracticable owing (1) to the damage which the plan would inflict upon American silver mines and the lead and copper mines from which silver is a joint product. (2) To the present unfamiliarity of the American market with the financial position of the Indian government (3) and more important, on account of the fundamental defects in the plan itself, described in the testimony and here summarised.

(vi) *As to Monetary Reconstruction.*—Through gradual stages, monetary reconstruction throughout the world is being accomplished, partly through co-operative effort and largely by the employment of American credit. It would seem to be essential to the success of any plan attempted by any country, that it should be brought into harmony with these efforts, and we believe that it is to the interest of India herself that she should join as a partner in co-operation for the success of this movement.

(vii) *As to Banking.*—While somewhat outside the scope of the Questionnaire, we feel justified in pointing out, and indeed emphasising, that the attempt to introduce a full gold standard into India in advance of previous development of the banking machinery necessary for its operation would menace the successful working of the standard in India. The internal advantages of the gold standard cannot be permanently enjoyed in India until the Indian people possess a banking organisation capable of discharging the international responsibilities implicit in the acceptance of that standard. This we believe would be the case even if the initial obstacles to its establishment could be overcome. We are also of opinion that the resulting situation might render the functioning of the gold standard in other countries extremely unsatisfactory, and consequently the functioning of the gold standard in India itself of doubtful value, if not of positive disadvantage to the economic well-being of the Indian people.

15,396. (*Chairman.*) Your résumé is a most valuable drawing together of the principal points which

have emerged after a long and very full discussion of this particular matter. Realising that at this point we have completed the assistance which you have given us on the scheme for a gold standard and a gold currency, as it has been submitted to you, this is the moment to ask you any questions which are still outstanding upon that scheme and which perhaps you will allow us to submit for your consideration.

15.397. (*Sir Purshotamdas Thakurdas.*) Do the remarks which you have made apply to gold standard without gold currency or to gold standard with gold currency?—I should say they apply specifically to the plan as submitted, which contemplated ultimately a gold currency.

15,398. Would they apply at all to gold standard without gold currency immediately?—They would need to be modified.

15,399. (*Chairman.*) If we are going into that in detail we should perhaps have to see which remarks apply to each of those headings, and go into it rather more in detail?—I thought it was best to direct the summary to the specific plan and questionnaire, although it may not be quite applicable to the state of mind which may now exist amongst the members of the Commission—of which state I am not advised. Perhaps the subsequent discussion which we shall have may bring that out.

15,400. (*Chairman.*) The summary which you have just given will have a most relevant and comprehensive bearing on one of the most important matters which is before us.

15,401. (*Sir Maneckji Dadabhoy.*) You referred to the social injustice which would be caused to the people of India by their stores of value—silver—depreciating. Suppose that contingency took place could not the injustice be mitigated by the purchase of silver at gold price?—I would rather assume that tho easier way out would be by pursuing somewhat the course which has been pursued in the United States in regard to our silver circulation and other circulation of what I might describe as fiat money. We have grown up to it and absorbed it in our circulation without any loss to the population, which otherwise might have occurred. We have in circulation to-day in the United States over 700 million dollars of national bank notes which are secured by Government Bonds. We have in circulation about 500 million dollars of silver certificates with silver dollars in store behind them, where the silver is worth but a fraction of the legal tender value of the silver certificates; and we also have in circulation 346 million dollars of green-backs which were originally issued without any value behind them except the promise of the Government. The commerce and business and population of the country have grown up to a point where that is retained in circulation without imposing any depreciation loss upon the people of the country.

15,402. Would you care to give us a little more information about the import duty on silver which you mentioned? You stated that it would have the effect of raising materially the domestic price of of silver. Your remarks do not apply, of course, if the Government of India want to impose an import duty on silver for revenue purposes?—As to the first part of your question, I am afraid I will need to modify that. The effort to raise the domestic price by the imposition of an import duty I personally believe would fail. If it did fail in maintaining the domestic price, it would fail at a time of some business adversity when a surplus of silver was offered for sale, and when in fact the hardship upon the Indian people would be the gravest; but assuming for the purpose of argument that it was successful in maintaining the domestic price above the foreign price, it would seem then to put the Government of India in a position of ensuring a price for silver almost for all time, because at the completion of this plan they would have sold nearly 700 million ounces of silver to the Indian people possibly at a price that was double the world price. Whatever might be the purpose of the imposition of a tariff in maintaining the domestic price, so long as the consequence is as I have described, the imposition of the import duty under any guise of purpose would hardly be justified.

15,403. In case the import duty fails there is still another weapon in the hands of Government, is there not—complete prohibition of the import of silver, which would serve the purpose desired, would it not, by raising the price of silver in India?—I would suppose that for a period at least—that is, for 10 or 12 years or longer—there would be competition for the sale of silver at times between the Government and the Indian people who were forced to sell their silver by adversity, and that the consequence even of a complete prohibition of the import of silver might not protect the Indian people against a sharp decline in the value of silver. We have had some experience in the United States in an attempt to peg the price of silver by unlimited and then by limited purchases of silver, which proved to be disastrous in the end, as you know.

15,404. Of the two alternatives—the imposition of an import duty and the prohibition of import—which would the United States prefer?—I do not know that it would make very much difference to us which method was employed for that purpose. The point of our remarks on the subject of the import duty has been, rather, to emphasise the possibility of a great injustice to the Indian people.

15,405. In case it is decided to impose an import duty in case the price of silver depreciates, in your opinion, at what particular level of price could that duty be safely imposed?—I have no idea whatever; the uncertainties of production of silver are so great. For instance, any considerable advance in tho price of copper and lead—which is far from being an unlikely thing to happen—would automatically bring into existence a vast production of silver beyond even the maximum production of former years without any new discoveries of silver mines; and in the event of the enforced sale of silver in world markets—by-product silver—as the result of an enlarged demand for copper and lead, I should suppose that the Indian Government would be confronted with very great difficulties in adjusting from time to time the specific level at which the tariff should be fixed in order to exclude from India the importation of silver of depreciating value.

15,406. You are aware that, a few years ago, we had in India for a brief period an import duty on silver. Could you tell me if that duty affected the United States in any way?—I am sorry not to be able to answer that question. Possibly Dr. Sprague or Dr. Hollander may be able to do so.

15,407. (*Chairman.*) You mean if it had any effect on the silver interests in the United States?

15,408. (*Sir Maneckji Dadabhoy.*) Yes. (*Dr. Sprague.*) Do you refer to the period of the War?

15,409. If my memory serves me correctly, we had an import duty on silver at two different periods. One of them was during the War?—I do not think that that import duty had any appreciable effect, because the other imports of India were being made under great difficulties and restrictions, with the consequent intense demand directed towards silver in India. It seems to me that that duty was in the nature of a revenue duty distinctly, and it presumably made it necessary for the purchasers of silver to pay a bit more for it; but their demand was such that apparently they took off all the available supplies, and a special supply had to be created through the temporary withdrawal from circulation of silver certificates in the United States. I am unable to see, therefore, any reason for supposing that any larger quantity of silver could possibly have been acquired by the Indian people had there been no duty. It naturally follows, therefore, that they must have paid for the silver, which they did secure, the market price *plus* the duty. I do not believe that it had any concrete reactions upon producers in the United States.

15,410. Are you in a position to state the total exports of silver during that period to India?—The exports could not have been greater than they were.

15,411. In the previous years?—In the years during the War which are now in question.

15,412. (*Chairman.*) That brings us to the close of the questions upon which you have been kind enough to come here and assist us. There are other very important aspects of this situation which are of great interest to us and on which you have the right to express an opinion from your unique experience. I refer in particular to all those groups of problems which surround the question of a central bank; I wonder whether we might take advantage of your presence, without unduly imposing upon your time or energy, to ask you whether you would assist us with any general advice upon the topic of a central bank and as regards its fundamental principles. Without entering into any matters requiring special knowledge about India, there must be points which emerge from the general principles of central banking which are applicable to those features of Indian conditions which are common knowledge to all of us. Would it be possible for us to invite you to take that further step?—(*Mr. Strong.*) I am very glad to do so, Mr. Chairman. In fact, in my opening statement I took the opportunity of expressing the hope that the discussion would take this turn. I am sure you will realise, however, that in discussing that particular phase of your inquiry I feel I am venturing upon ground where possibly I do not feel quite as sure of my footing as I have felt in discussing the questions raised by the Questionnaire which were the subject of some particular preliminary preparation.

15,413. I hope you and your colleagues will be very stern with us and refuse to be enticed a step further than you desire to go?—I fear that before my statement is concluded you will think that I am venturing with a good deal of boldness into the discussion of Indian matters with which I am not particularly familiar. On that account, may I be permitted, in going over the record of this part of the hearing, possibly to indulge in something more than mere textual changes and, if it appears desirable to do so, to eliminate some of the statements if it appears that I am venturing on ice that is too thin.

15,414. If you please?—In considering in general the subject of banking in India I would like to describe first my feeling about the general principles which apply to the reorganisation of banking as distinguished from purely monetary problems. I would liken it, if you please, first to the construction of a foundation for a super-structure, and the foundation for a central banking system in India, to my mind, must be carefully introduced among and interwoven with the existing banking practices, the existing customs of business, the existing methods of Government in managing its fiscal affairs, and the existing business that India conducts; but that it should not be applied, as was done to a considerable extent in America, as a sort of forced readjustment of methods. If this foundation upon which the super-structure of a great bank of issue is to be erected in India is not a secure one, if the concrete in other words, has not had time to set, and the completed super-structure is built upon that foundation, the super-structure is liable to weaken, settle, and possibly crack and fall. That is peculiarly important in the construction of a plan for a central bank, because the operations of the gold standard are to be conducted very largely by the machinery that must be installed within that super-structure. I am proposing to discuss in stages a series of rather loosely related features of a bank plan for India. I am careful to urge that you should not consider that I am submitting a plan, or anything like a completed plan. They are merely comments upon certain features and conditions peculiar to India, and a central banking practice that I believe it may be desirable to study. I am sure that you will not gain the impression from what I say that the suggestions involve any criticism of the course of India in these matters in the past. You certainly cannot believe that when I remind you of the fact that it was only 12 years ago that the United States undertook to do exactly what India is now undertaking to do and indeed with us after 80 years of rather more extreme disorder in banking and monetary matters than probably any nation has experienced. I think at this point, partly in order to save my voice, I would like to ask Prof. Sprague or Prof. Hollander, as they prefer, to make a little statement in regard to experiences which we suffered in 1893 and 1907 and which may be considered as analogous in some respects to the experiences in India, and to the influence that they had upon the study of a banking plan for America, the appointment of the Aldrich Monetary Commission, and finally, the adoption of the Glass-Owen Bill?—(*Dr. Hollander.*) I think I shall defer to Prof. Sprague, and will be glad to repair any gaps that he may leave.

15,415. (*Dr. Sprague.*) That is rather a large order; but there is, I think, in your experience a rather interesting analogy in the United States of this character. This is one of a series of Royal Commissions which have been concerned with Indian currency and monetary matters. I think it is rather striking that these successive Commissions, up to the present one, at any rate, have given comparatively little attention to banking matters. Governor Strong spoke of the disorders which had marked our financial course in the United States. If one looks into our history one finds that public attention throughout many decades concerned itself almost entirely with the securing or the proposing of monetary changes. After the crisis of 1873, for example, there was much discussion of the unfortunate situation in which we found ourselves, and its causes; and public opinion settled down to the belief that the main cause of difficulty was in the green-back issue. There seems to have been a general consensus of opinion that if we could strengthen the situation as regards the green-backs and make them convertible and resume specie payments we would have corrected or removed the main cause of our troubles. Again, in 1893 we were in somewhat similar difficulties, and public attention was concentrated upon the redundancy of the currency occasioned in large part by the monetary purchases of silver by the Government during the previous 15 years. That cause of trouble was removed, and the public seemed to be pretty well convinced that now we could go forward with no further repetition of such difficulties as we had from time to time experienced in the past. There was a bit of discussion regarding the desirability of having a more elastic bank-note issue, but interest in that matter soon faded, and for a time we gave no further attention to monetary and currency problems. In 1907 came another crisis, not in many respects very different from those which we had experienced in earlier decades. It happened that there were not conspicuous monetary causes to which the trouble could be attributed. We had been receiving a very considerable quantity of gold during the previous 10 years, and prices had advanced somewhat. There was no reason to think that any change in our monetary arrangements would have enabled us to escape the difficulties in which we found ourselves in 1907. Perforce we were driven to perceive that defects in our banking system were present and were in that particular the seat of the troubles, and a bit of analysis showed that those defects had been similarly present in 1893 and 1873, and indeed, on earlier occasions, but it had not been clearly recognised because they were complicated with conspicuous monetary difficulties. Following the crisis of 1907 a Monetary Commission was appointed which

undertook detailed studies of our own currency and banking experience together with detailed studies of banking organisation and practice in other parts of the world. After some three years of investigation, which included the publication of 30 or 40 volumes on currency and banking matters, this monetary commission prepared a Bill for a central bank, a Bill which we know in America as the Aldrich Bill. That Bill brought forward in 1911 was the subject of widespread discussion and criticism. It was modified somewhat, but it was not passed through Congress. In 1913, there having been a change in the administration, under new auspices the attempt to secure banking legislation was resumed. Much use was made of the investigations of the Monetary Commission, and the so-called Aldrich Bill was, in particular on its technical banking side, much used in framing the new Measure which came to be known as the Glass-Owen Bill, and which as it was finally passed, is now known as the Federal Reserve Act. I think our experience raises the presumption that in the case of India you will not reach the desired haven by a consideration of banking, currency, and exchange matters alone; but you will find that they are inextricably interwoven in with banking development, organisation, and practice; and possibly our experience may suggest the rather unpleasant consequence that a number of years' work may be ahead of this commission.

15,416. *Mr. Strong*: (i) The point that I would like to make, using this statement by way of analogy, is that the study of monetary reform in America extended over a period actually of six years in the effort made immediately prior to the establishment of the Federal Reserve Bank. It resulted in no change in the existing currency in America; it added a new form of elastic currency and resulted in the establishment of a bank of issue. It convinced us conclusively that the difficulty with our monetary system was the absence of a bank of issue to hold the bank reserves of the country, to issue an elastic currency, and to conduct the fiscal operations of the Treasury. So that our monetary reform was really expressed in bank re-organisation.

(ii) Therefore, if I may make these remarks by way of suggestion, it seems to us that the first stage of development should be a study of those banking and business conditions in India which will lay the foundation for the erection of this super-structure of a central bank of issue. Those studies, it seems to us, should extend specifically into the business that India does, which is largely agricultural and largely confined to four or five major crops which produce a large export balance. Next, there should be a careful study of the existing practices in banking and in moneylending in India, and their growth, if you please, by adaptation to the needs of India, so that when this bank is created it may lend itself to serve the Indian People through adaptation to existing banking habits and practices. Next, there would be a particular study of the habits and usages of the people of India, and the outstanding fact which distinguishes India from any other country in its social customs, is the habit of accumulating savings in precious metals. Then again, what is suggested by the literature with which we are all familiar about Indian affairs, is a better understanding of the peaks and troughs of credit occasioned partly by the seasonal character of the business of India, partly by the operations of the financial department of the Government of India itself, and especially concerning those periods of strain and relaxation which arise through the need for periodical or seasonal external and internal payments, exchange payments, of a large volume.

(iii.) I might illustrate what I have in mind at this point by reference to Mr. Denning's report which showed, among other things, the great fluctuations in the volume of the Government balances in the Imperial Bank of India, running at times, as I recollect, as high as 40 crores, and then again, running down in a later period as low as, possibly, eight crores. In like fashion one would refer to the need for periodical heavy remittances to London. I am not familiar enough with all the conditions which affect the rates of interest in India, but after 12 years of reasonable tranquility in money rates in the United States, my consideration of the situation in India leads me at once to recall the conditions that existed in the United States in the crop-moving periods where call money rates in New York, due to the enormous transfer of currency which was required to the interior, sometimes went up 25 per cent. and even 50 per cent. higher at the crop-moving period. I notice that the rate of the Imperial Bank of India for the year 1924-1925 started, as I recollect, in the season of strain at as high as 9 per cent. It was reduced in a period of a few months to as low as 4 per cent., and then again in a few months, as the season of strain approached again, it advanced to 7 per cent. I cannot believe that that is a wholesome condition under which business should be conducted in India. Later on I will be glad to describe how the operation of the Federal Reserve system is able to introduce compensating influences against these large movements, to smooth out the curves, of peaks and troughs of demand, and consequently, the high and low points of interest rates. Of course, the development of a central bank, or, as with us, a system of central banks, is hardly possible in a country where a fairly well-organised money market does not exist. I think it is not beyond reason to suggest that were it not for the influences of the war, which brought into play in such large volume the credit resources of the Federal Reserve Banks, we would have had difficulty even up to the present time, after 10 years or more, in developing the kind of organised money market in New York which would permit the Federal Reserve Bank to function as it should in a money market due to a variety of reasons which I should also be glad to describe later on. As it happens, to-day the bank rate of the Federal Reserve Bank in New York functions in a fairly well-organised money market—but still not what it should be—and functions admirably. It is effective at times when restraint is required, and it need not be a restraining influence at those times when an expansion of credit is required—I mean the normal necessary seasonal expansion of credit.

(iv.) One of the elements in the development of the money market necessarily is the instruments that are dealt in there. I refer especially to all forms of negotiable instruments which are used in connection with short time business transactions, and particularly the sale of goods, and especially the best type of instrument, that is, the bill of exchange, and possibly, with bank names. I understand that there is a stamp tax on certain types of bills and negotiable instruments in India. We had a Stamp Tax on bills—that is, accepted bills and notes—during the recent war, which is not a usual form of taxation in America. We found that it interfered very greatly with the operation of the Federal Reserve Bank. The Tax was heavy enough even to cause some difficulty in a nice adjustment of our rates. It certainly had the effect of restricting the development and use of the type of paper upon which a money market must depend for its functioning. Without any desire to intrude views about what is or is not a wise method of taxation in India, it has seemed to us that a Stamp Tax on the type of paper which is used for financing business transactions in India is possibly quite a mistake, and may lead to a development that will impede the functioning of a bank of issue. The same thing applies to the development of the habit of deposit and cheque banking. I believe there is a Stamp Tax on cheques in India. We had a Stamp Tax on cheques at the time of the war with Spain. It was abandoned. It was found to be an unsatisfactory restraint upon the use of cheques and upon economy in the use of currency. The Stamp Tax on bills and

notes was, I think, the first tax we abandoned after the end of the recent war. There was a proposal during the last war to impose a Stamp Tax upon cheques. It was very carefully investigated, and the idea was abandoned. To illustrate the influence which it might have had upon the currency position, we made an investigation in New York to see what would happen if a small tax was imposed upon cheques, and we found that one of the largest employers of labour in the State of New York was paying practically their entire clerical force, and a very large part of their labour, I think 60,000 people, by a system of cheque payment. They notified us that the cost would be sufficient to justify them in returning to the system of currency payment of wages. Those two taxes are termed in America "nuisance taxes"; and I am glad to say they have been abandoned. There are now no impediments to the development of the type of paper which, we believe, a successful central banking system must discount. It appears from the literature with which we are familiar that there has been a considerable development of deposit banking in India. India is a nation of wide extent geographically, peculiarly adapted to the use of cheques as a convenience in making payments, especially so in a country where, through generations of habit, the use of silver coins has been very largely the means of payment in the past. I can readily see from our own experience in developing a regional system of Central Banks of issue over a wide area the many advantages which would accrue to India in the facility of conducting business, and in making internal payments, if the cheque-using habit could be developed. Certainly it would apply to the collection of the revenue. I understand now that there are 1,000, or possibly 2,000, treasuries, or sub-treasuries, so-called, maintained throughout India as a necessary facility where taxes are paid in coin. The use of cheques more generally by people of sufficient means to come within the tax-paying class would certainly greatly facilitate the operations of the Fiscal Department of the Government of India. There is another development in banking in India which is natural enough, which has never appeared in the American banking system, but which is largely practised in India and on the Continent, which, I also fear, would interfere in a measure with the development and proper functioning of a bank of issue. That is the enlarged use of the Cash Advance account. I would like to use our own experience (although it lengthens the talk considerably) by way of analogies as I go along on these various points.

(v). In the United States an overdraft is prohibited by law for National Banks, and in many States there is a prohibition against State banks granting overdrafts. The result has been that every borrower at a bank has to execute some form of instrument expressing his debt, and the most usual instrument used in the type of advance that is the equivalent of the advance account of the English Joint Stock Banks is simply a note of hand. There is no market for paper of that kind—no general trading in that type of paper in the American market—but by good fortune the Federal Reserve Act made it possible for member Banks to discount that paper when they required accommodation at the Central Bank. Now, if the development of banking in India takes the form of an overdraft account which produces no negotiable instrument which can be taken to a bank of issue, certainly it will retard the functioning of the bank of issue, which requires for its conduct that borrowing be on the best type of paper that the Commercial Banks get from their customers. You will understand from what I am now discussing that our own experience suggests the need for a careful understanding of how the existing practice may be made to fit the establishment of a bank of issue, and not disturb the customs of the country too greatly.

(vi). Another obvious suggestion is the similarity between the production of the two countries. We have a great area, the South, where the major production is cotton; then in the North-West there is wheat; in the Middle West corn; on the Great Plains cattle and sheep; and then we have the great dairy industries, which are grouped in various parts of the country. Again, what has become an important group is the citrus fruit crop in Southern California and Florida. All those crops come forward at various times, when the preparation of the soil at different seasons gives rise to seasonal demands upon the system which the Federal Reserve Banks are designed to meet, and do now very satisfactorily meet. It may interest the Commission to look at a small map showing how the districts of the Federal Reserve Banks are laid out. (*Map handed in to the Commission.*) The similarity of the conditions in the United States and India are shown by considering that you have Calcutta, where the principal production is jute, Bombay and Madras cotton, Karachi wheat, Rangoon rice, Ceylon tea, all presenting very similar conditions. In the study of the development of a regional central banking system for India, it seems to me from our experience that the choice lies between two principles: (1) In so distributing the activities of the bank of issue that each area distinguished by the character of its production should be financed as a separate operation, so to speak, with some centralising arrangement by which the compensation of demand with increases in the supply of credit will normally and easily take place, or possibly making a cross section so that compensation is a natural and automatic one, such as would be the case in the United States if district lines for the regional banks ran directly North and South, and part of each district was cotton and part was corn and part was wheat. Our experience certainly indicates the need for some special study of the requirements of agriculture in a country where the proportion of agriculture production is greater even than in the United States, to make sure that the new system, if it is adopted, is particularly designed to meet the seasonal needs of agriculture.

(vii). Then possibly there is need for still further developing the introduction of facilities and the spread of popular sentiment favouring the directing of the savings of the Indian people more into investments and the development of investment banking in India. I realise that much has been done by the Imperial Bank already, and that other agencies are being created. One of the difficulties about developing investment banking in India I should apprehend would be the difficulty of language. Possibly another would be the lack of facilities for the safe keeping of securities. You know how exceedingly strong an influence on the development of the investment habit in France has been exerted by the creation of facilities by the large banks for holding securities for their customers, almost exactly as if they were bank accounts. As an incident to the development of the investment habit in a nation where wealth is accumulating as rapidly as it is in India, I should suppose that there would be many refinements, such as making the terms of investment perfectly clear to all classes of the population irrespective of language, making them readily accessible for subscription in all parts of the country, and if you please creating a standard of investment by directing it especially to the security issues of the Indian Government itself. This has a very distinct bearing, in our opinion, upon the operation of any standard in India designed for the creation of a stable international value for the rupee. For instance, if it were possible to promote the offer of securities, which might have a market both in India and in London or in America, that creates an instrument for use in the international market which is just as serviceable and even more serviceable at times than a bill of exchange. I recollect over 30 years ago when the United States was the greatest

of all borrowing nations, that issues of securities had first been made by our new railroads, payable in foreign currency, such as sterling, gelders and francs. The attention of investors throughout the world was gradually directed to the favourable opportunity to make money in American investments, and in course of time the habit of issuing securities by American corporations in foreign currencies was gradually abandoned; and most of the security issues, even for sale in foreign countries, took the form of dollar securities.

(viii). I am frank to say that the need in the early days for the issue of securities payable in foreign currencies to satisfy the demands of foreign investors largely grew out of the fact that they had no confidence in what the value of the American currency would be when these obligations fell due; because we were not on a sufficiently definite standard of value to make them certain that they would get back as much money as they had loaned. The influence of international markets for American securities on the adjustment of exchanges has been marked for many years before the war where we had what was known as the Arbitrage market, where trade was conducted in New York and London almost simultaneously, and where securities flowed backwards and forwards with the greatest ease according to the level of interest rates in the two markets.

(ix). Possibly I have enlarged on this too much; but I think we have all agreed among ourselves in discussing this that it is a rather important collateral development to the nice functioning of a bank of issue and to the adjustments of foreign demands.

(x). So far the discussion has confined itself to the existing habits and practices in India, in the hope that it may be suggestive of shaping developments in the future which will lay the foundation for the establishment of a bank of issue.

(xi). Now we come to the organisation of the bank of issue itself. I should say that concurrently with the development of any plan along the lines of laying this foundation for the bank of issue should be a careful study of the exact character of the bank itself and the functions that it should perform. The first decision which naturally must be made would be, according to the weight of evidence, whether the bank of issue should consist of the existing Imperial Bank with added functions, or whether it should be brought into existence by effecting a separation of the Imperial Bank, say, into two banks, transferring to one bank those functions which properly belong to the bank of issue, and leaving the remaining commercial business with the Imperial Bank; or, as a third choice, not to make any change in the character of the Imperial Bank, but to create a new bank of issue.

(xii). I propose to discuss that in a little more detail later; the point being, however, at this stage of the discussion to emphasise that the time for the study of the type of bank of issue is concurrently with the examination and decision of what methods should be applied to the existing bank practices in India, so that they may be shaped in the direction of the creation of a satisfactorily functioning bank. It should not take very long, I should suppose. We took six years; you may be able to reduce the time to a much shorter period, before the time arrives to open the bank of issue. That is no more than a guess. We took too long.

(xiii). It seems to me that upon the opening of a bank of issue the first important change would be effected by the complete transfer of the note issue and of the reserves to the new bank. When it comes, however, to effecting the transfer of the Government deposits, difficulties will be encountered. You will correct me if I am not right in my information that the deposits of the Government in the Imperial Bank vary from a minimum of, say, 8 crores to a maximum of as high as 40 crores. Now, the sudden transfer of the balance, which may average 20 crores, from the Imperial Bank to the bank of issue necessarily involves the transfer of a corresponding amount of the assets of the Imperial Bank, which, it seems to me, can be accomplished better by doing it gradually; and it also seems that one must at the very outset adopt one of two methods in doing so. Either some part of the commercial business of the Imperial Bank would need to be permanently transferred to the bank of issue—that is the transferring of a certain number of the accounts of borrowing customers—or else at the very outset the Imperial Bank must be a very large borrower from the new bank of issue. It would have to discount enough paper with the bank of issue to offset the entire amount of Government deposits which were transferred.

(xiv.) With regard to large transfers of that character—we have had some experience at home with them in connection with the establishment of the federal reserve system—it is our feeling that it needs to be done with the greatest possible care in order to avoid disturbance. The analogy in American practice with the operations of the Government account in the Imperial Bank may possibly be interesting, and it is this. After the discontinuance of the second bank of the United States in 1836 we established what was known as the independent treasury system. By the practice which then grew up, all the revenues of the United States were actually paid in in cash into the Treasury or into sub-Treasuries. The Treasury never loaned money, and consequently the strain upon the money markets of these periodical and very heavy accumulations in the Treasury, especially when they were surplus revenues, became a very serious matter. A compensating influence which was attempted was to have the Treasury depositing the surplus funds in the national banks. Now, there had grown up, before the Federal Reserve Act was passed, something over 8,000 national banks; and I need hardly describe to you in detail the difficulty of keeping satisfied some 8,000 banks all influenced by the desire to make money, many of them influenced by special seasonal demands that made these Government deposits of very great value to them and almost a necessity. I am frank to say that it was an unorganised and rather disorderly method. At times the Treasury, in order to relieve the strain on the money market, has anticipated the payment of the interest on the Government debt for as long a period as six months or a year. They did that, as I recollect, in the '90's and, I think, once subsequent to that. The operation of the Government account with the Imperial Bank of India might have that same effect. I am not aware, so far as details are concerned, of what methods are available to the Imperial Bank to offset the accumulation of Government revenues. I will describe, if you care to have me, what we do at home now that the federal reserve banks hold the Government accounts. The great bulk of the taxes, the income taxes, are payable four times a year—March, June, September, and December. After a good deal of adjustment the short maturing debt of the United States has been arranged to mature on those dates, so that in a measure the collection of the revenues on the quarter days synchronises with the maturity of the short debt. But even there a very nice adjustment for the benefit of the money market becomes necessary. When the Government makes a new issue of securities, which it usually does on these same dates, they are sold by the reserve banks through the member banks. Payment for securities issued is made to the member banks and placed at the credit of the federal reserve banks on the books of the member banks. The federal reserve bank has security for the deposit in its hands. That effects no disturbance in the money market, because it is simply a transfer of deposit from one depositor to another. When, however, the funds have to be withdrawn from all of the depository banks and assembled in the federal reserve bank in order to meet Government disbursements, there comes a period, generally of not over a

week, when a very large sum of money is taken out of the money market, and at those times the Federal Reserve Bank of New York makes large advances to the Treasury, sometimes as much as 300,000,000 dollars so as to bridge the period of transfer of Government funds. That, on the other hand, has the effect of putting a large amount of credit back into the market, because the cheques in transit have not been presented and paid into the reserve bank. To offset this flood of money which comes into the market on the quarter day from the reserve banks, we make temporary sales of securities to the market and "mop up" the surplus, as the expression is in London; and that advance is gradually repaid as these transfers are effected. This is a detail of administration which may not be directly applicable to conditions in India, and it operates only for a short time, but it has been suggested to my mind in reading the reports that something of that sort might be capable of development in India.

(xv) In addition to the transfer of the Government deposit to the bank of issue, which it seems to me would require considerable study, there comes the additional question of what kind of deposit shall be held by the bank of issue. In the United States our deposits consist wholly of funds of the Treasury and the reserves of the member banks. We do no private commercial business at all. The deposits of the member banks are fixed percentages of their own deposit liabilities. So that as to any analogy between conditions in the United States and conditions in India, great care would need to be exercised in adapting anything like our federal reserve system to Indian conditions, because you have not got the fixed reserve requirements of law that we have in our banking system in America. Among the deposits which would naturally be considered as a possible basis of the deposit business of a bank of issue would be those of the exchange banks—the reserve of the exchange banks for one group. It seems to me that any arrangement for establishing a relationship between a bank of issue and the exchange banks should be designed so that it will lend itself especially to the development of the money market to which I have referred in India. It may be that some interesting analogies might be discovered by a study of the relations that exist now between the Yokohama Specie Bank of Japan and the Imperial Bank of Japan. At least, that is one class of deposits that it seems to me requires consideration. Another class would be the reserves of the incorporated banks of India, including the Imperial Bank. It may be well here to recall the experience that Japan had in establishing their banking system. In about 1872, after an exhaustive study of European banks by a Commission under Prince Ito, they adopted the American national banking system. I think it is a fair surmise, at least, to believe that those very eminent Japanese students and economists were led to do so by two circumstances: one, the fact that the American national banking system seemed in a very short time to have achieved great success; and the other is that it just happened that their visit to Europe coincided with the period when the great English economist, Mr. Walter Bagehot, was urging upon the attention of the British people the need for independent banking reserves. At any rate, the Japanese people adopted the American national banking system. It took them only ten years to discover the defects of the system; whereas it took us nearly fifty years. In 1882 they abandoned it, and by Imperial decree established the Imperial Bank of Japan. I may say that, according to my recollection, within a year, as a result partly of a foreign loan the depreciation of the currency inherited from the Shogun regime disappeared in Japan. Their experience with monetary difficulties corresponded to our own. They found that what they needed was not a different kind of money, so much as a bank of issue.

(xvi) The third class of deposits, and one which I am not capable of commenting upon particularly, is the reserves of the Indian co-operative banks and the private moneylenders—that is, the Shroffs and the Marwaris, and those who trade directly through the widespread system of moneylending which is a feature among the Indian people. The only emphasis that I can put on that class of deposits is that they have such an important function to perform in the credit operations of the Indian people, that consideration seems to me must necessarily be given to some relationship between the bank of issue and that class of moneylenders, if it can be found possible to create it. I should also say in connection with the creation of a bank of issue that it seems to me that the greatest care must be exercised, both in the character of the change and in the rapidity with which it is brought about, so as not to work injury to the Imperial Bank, which occupies so important a position in the banking of the people of India themselves. This largely is a problem of transfer of reserves. I think it is a fact that no feature of the establishment of the federal reserve banks was studied with greater care than this operation of the reserve transfers, as there was such possibility of doing injury by too hasty or too ill-considered transactions. In fact, the transfers were spread over a considerable period, and the machinery of the reserve banks was set up so that they could function at once in taking care of any difficulties that arose in connection with the transfer.

(xvii.) Probably the most difficult decision that must be made in the establishment of a reserve bank if, as I apprehend, one of the functions of a new bank of issue will be to maintain the banking reserve of the nation as it should, and, I think, must do, is to decide whether there should be statutory reserves required in order to establish contact with the bank of issue—that is the American system, of course—or whether, as an alternative, it would be satisfactory to permit of a gradual development of this relationship the same as has taken place in England between British banks and bankers with the Bank of England. In other words, there are two methods of approach, one is to require a minimum legal reserve, and the other is to exact a standard of credit by means of an arrangement between the depositor and the bank of issue. I think possibly our own opinion runs rather strongly against avoiding the unexpected and possibly radioal changes that would be required in Indian banking by the introduction of any system of "statutory reserves". Every member bank in the Federal Reserve system of which there are 10,000, as you know, is required by law to maintain with us a reserve of a given percentage of its deposit liabilities, and it must not fall below that. If it does fall below that (they are permitted to use it, that is, to draw on their reserve account) they are charged a penalty of 2 per cent. above our discount rate for doing so, so that it is very expensive for them to draw down their reserve balance. When the reserves become impaired, of course they immediately come to us and borrow. I think it also should be considered in connection with the required reserve that there are other developments which would unescapably follow, which should be explored. One is that if the incorporated banks of India and the private money lenders are required by law to keep a minimum reserve with the bank of issue it would seem then that they would be entitled, as a matter of right, to borrow from the bank of issue, and that this could not be escaped. If they are entitled, as a matter of right, to borrow from the bank of issue the bank of issue might be required to make bad loans, and I do not know of any bank that could survive a statutory requirement that it should make bad loans. Then, again, the requirement of a minimum reserve of that character by law implies almost inevitably incorporation, that is to say, standard methods of accounting and reporting. It brings in its train the need for examination such as we have

developed so extensively in America. Practically every incorporated bank in the United States is examined by either Federal or State authority, and the Federal Reserve Banks have themselves the right to send examiners and examine every member bank at any time they want to—any one of them. They are required to make regular reports, and, in fact, the amount of credit information that we have about our member banks would surprise almost any banker outside the United States.

(xviii). Then there is another important consideration. Almost from the beginning of modern banking, if it can be called modern in the United States, we have had statutory requirements for minimum reserves—for national banks ever since they were created, and for the great majority of the banks incorporated under the State law. So that it was no new idea, and it involved no great innovation. When the Federal Reserve Bank was established it was a very simple matter indeed to effect by simple percentage arrangements the necessary transfers to the Reserve Banks of some portion; and finally, after 1919, of all the reserves.

(xix). I am conscious of the fact that the programme, as I have described it by stages, might have left the impression that the execution of a plan for any central bank in India might involve a long period of activity by this Commission. I do not mean to imply that. What I should like to emphasise as to the progress in the adoption of the plan was the present need of making haste slowly in its introduction into India. Doubtless the continuation of the studies which might be required, such as those that I have very roughly indicated as appealing to us, could all be conducted by arrangements effected by the Commission for more detailed study in India. However that might be, the construction of the plan, if we use the analogy of our own method at home, would follow after the work of a Commission which laid out the plan finally expressed in a law developed by its Congress for the creation of the bank. Then the period of actual development of the plan would follow naturally by gradual stages so as to avoid any sudden or radical change in the conduct of banking and currency matters in India.

(xx). As to the progress and development of the bank, once it is established, naturally the first question which arises is as to the convertibility of the rupee. My own belief is, and I think this will be developed later in the talk, that at the outset once the bank takes over the note issue and the reserves, convertibility should be substantially by the methods now employed by the Indian Government. One should not impose upon the bank any radical change of method at the very outset. The stage beyond that would be, possibly at once, the development of relations by the bank of issue or in such a way as might be decided in other gold standard countries. Whatever form that might take, my suggestion would be that it would include a plan for familiarising other markets with the credit of the Indian Government, so that other centres might be available as credit markets for the purpose of maintaining the convertibility of the rupee. As you know, we sold Council Bills in New York as a war measure through the Federal Reserve Bank of New York. That was not done by direct flotation of Indian securities or direct operations in Indian securities in our market; but it was done by arrangement with the British Government. There were certain advantages given to the rupee market by the fact that our importers of jute were thus able to buy rupees at the Federal Reserve Bank of New York, and we very carefully devised the plan by which it was done so as to ensure that the rupees would be used actually to pay for the jute purchased in India. I have no doubt the members of the Commission are familiar with that. The analogy between extending the relations to other gold standard countries and the practices in the United States is shewn by what has recently occurred. Prior to the war, before the establishment of the Federal Reserve banks, the American commercial banks doing international business maintained accounts and balances with foreign correspondents in various part of the world. The maintenance of those accounts became a matter of some hazard when the gold standard broke down. Inasmuch as gold is now freely available for export from the United States, and has been since 1919, the practice has now quite changed. Most foreign commercial banks maintain balances with American banks; and the unusual development which has taken place lies in the fact that, quite contrary to the practice before the war, almost all the banks of issue of the world now maintain accounts in New York. I think about a dozen of them maintain accounts with the Federal Reserve Bank in New York. This is in fact one of the phases of the development of the gold exchange standard as an intermediate step between the time when the full gold standard was adandoned, and the time when the gold standard is finally resumed by those countries which are now endeavouring to do so. But New York has to a very considerable extent become a drawing post for those countries which desire to stabilise their currencies as rapidly as they can in relation to the dollar which is gold. Without attempting to fix a period when this should be done, I believe the time will arrive fairly rapidly after the bank is established when a decision can be made as to establishing the definite value of the rupee. Whether that should be at one figure or at another, possibly we should not venture to make suggestions. Certainly Indian opinion would be much more valuable on that point than our opinion. [*Sir Maneckji Dadabhoy*: Did I catch you rightly to say that that question must be settled after the Bank is established?] Yes; I say at some point which I would not care to indicate, but at some point of time after the establishment of the bank, the definite value of the rupee might be established. The advantage of waiting for a period, although not too long a period, lies in the fact that experience will probably throw a great deal of light upon the value at which the rupee should finally be fixed.

(xxi.) Now this suggests comment upon the present practices in regard to the external value of the rupee; the making of remittances for Government purposes; variations between good and bad monsoons; the seasonal character of the exports from India and possibly the imports, all these cause a need for a certain amount of management to level off the periodical or seasonal fluctuations, that is the peaks and the troughs of fluctuation. It is very difficult to determine at what point a necessary and normal regulation of those fluctuations passes from a simple moderation to an attempt at pegging, or creating an artificial value, which of course is very much to be avoided. We have witnessed pegging experiences recently with other currencies. So I am not suggesting a rate, nor am I suggesting a particular time when the development of particular machinery for dealing with the external value of tho rupee may justify fixing the value.

(xxii.) Now possibly the next stage in the development of the functions of the bank of issue is the most difficult of all, and that is the point where the Ricardo bar might be introduced. We all realise that the original recommendation for the use of bar gold to maintain the convertibility and external value of the banknote related entirely to the use of bar gold for the purposes of making external payments. Inasmuch as the use of gold seems to be the ultimate objective of the plan, I can only suggest a few thoughts as to the difficulties which I apprehend may arise, which would need the most careful consideration. Difficulties, that is to say, in the use of gold to maintain the convertibility of the note in the form of bars. If the Bank is to redeem its notes in bars of say 400 ozs., certainly a great deal of study must be

given to the relations between the upper gold point and any premium for the gold which may exist in the bazaars in India. If it is possible to do so, it would seem to me that at the outset the redemption of the notes at the bank by the use of bar gold should be confined to enabling external payments to be made by the most economic possible methods by the Indian exchange dealers without risk of undue loss of the banks reserve for any purposes of domestic store of gold. In other words, it is more a matter of management than it is of law at the outset. In fact, it is a question of determining which is the right price to charge for gold at the bank, and how far it is possible to go in permitting a free use of bar gold for all purposes. I should say that this would be the testing period of the gold standard in India.

(xxiii.) If experience should disclose that it is safe to do so, then the time may arrive when it is possible to open the mint for coinage of gold. There is a large store of gold in India, which is certainly capable in time of being put to more fruitful use than it is at present; and it may be that the opening of the mint will promote that; but I do not see how it is possible to arrive at a decision without more experience. The decision to gradually approach full convertibility of rupee notes into gold has to be deferred until more is known about the influence which it will have on the habits of the Indian people. With the development of deposit and cheque banking, the development of saving habits in the form of bank deposits and investments by the Indian people, and the reduction of accumulation of gold for ornaments, and as a savings fund, to such an extent as to remove the danger to the bank's reserve, at some point experiment may show that it is safe to make free use of gold payments. It seems to me experience alone can tell. To attempt it without any experience seems to me something of a hazard. In fact, at this point I think I am justified in making the general statement that widespread, deep-rooted national habit of accumulating precious metals, and gold especially under these conditions as a savings fund, is incompatible with the establishment of a bank of issue and complete convertibility of the notes until sufficient modification of those habits renders the reserve of the bank of issue secure against their being withdrawn too suddenly, and to a great amount, for the purpose of accumulation of the precious metals. In fact, that is to my mind the key to the whole situation in India. To what extent will these deep-rooted habits at some point imperil the reserve of the bank? I wish it were possible to make some suggestion to deal with that, but I do not see how any suggestion can now be made. It depends upon experience. That is the reason why I have indicated that, preliminary to reaching that stage, careful preparation be taken in the direction of developing that foundation for your structure which will reach right down into the hearts of the Indian people and in the ways they have practised for generations.

(xxiv). Now, at the outset (that is to say, until the system has had greater development), I believe it would be quite impossible to have notes and coined rupees freely convertible into gold at the bank. But I do believe that the necessary accompaniment of the development of deposit bank savings and the investment habit should be to open the bank of issue to the free deposit of gold, I should say, to the free deposit of gold, whether it is coined gold or not. In other words, the bank should be, to a certain extent, a market of gold. If the Indian people should desire in the course of years to convert their gold store, not coin, but gold bullion, in whatever form it may be, into a banking account or into an investment security, the door should be opened wide to enable them to do so, and every facility created to enable them to do so. During this entire period notes and silver rupees should be freely interchangeable, and should retain their full legal tender qualities. That belief is founded upon what little knowledge I have of the persistence of these habits in the Indian people. They like their old ways. It seems to me it would be a mistake to force them out of their old habits of dealing with their money, which is the silver rupee, and in recent years the paper rupee. It would be wise to maintain its quality of usefulness to the greatest degree possible. As India grows in population and wealth, and as the business of the nation grows, if there is an excess of rupees in circulation now, as we have been taught in America to grow up to the use of, say, 1,500 million dollars of paper money of the types that we have, so I should think that certainly India would be able to absorb these rupees into circulation without undue inconvenience or loss.

(xxv). Obviously, a discussion of the development of any plan of this sort has got to stop before it gets into the stage of speculation as to what the conditions will be years hence. The object of what I have said up to this point has been, not to suggest a plan for India—I do not know enough about the details of life and business there to do that—but rather to suggest, from our experience in America, which is quite a recent one, that there are certain particular points that require very careful examination in establishing a bank of issue. I think, beyond the point where I have gone, the general project resolves itself into one of experimentation—trial and error. One recommendation that I would particularly urge is, not to place too much reliance upon explicit and exact legal definitions and requirements, but more upon gradual growth and development and experience.

(xxvi). The concluding word, I think, would be properly of this character. The outstanding characteristic of the Indian people is industry and thrift. Certainly, this vast accumulation of gold and silver that has taken place in India is evidence of the care with which they accumulate their savings, and the high value that they put upon having a secure instrument for the accumulation of their savings. it is now expressed in the accumulation of precious metals. It seems to me that those very characteristics of the Indian people, which really are the foundation of a successful economic life, should, if possible, be turned to a more useful purpose; that is to say, to the development of a more productive and useful banking system for the Indian people. If it is possible by education, by the creation of facilities and by the removal of impediments that may be found to exist, to turn this admirable habit of not spending more than one receives, but rather less, into the development of a proper bank of issue in India, I believe that is what is going to lay the foundation for the introduction of any kind of gold standard that India wants.

15,417. We are very much obliged to you for your lucid exposition. You have certainly taken us into matters which involve very deep enquiry into the conditions of the Indian people, particularly in relation to their reliance on gold and silver. Perhaps we can deal with this when we have the benefit of your attendance on a future occasion?—Certainly.

(*The witnesses withdrew.*)

# FIFTY-FIRST DAY.

## Wednesday, 12th May, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR, } (*Secretaries*).

Mr. BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York); Dr. JACOB H. HOLLANDER (Professor of Political Economy of Johns Hopkins University, Baltimore, Maryland); and Dr. OLIVER M. W. SPRAGUE (Professor of Banking and Finance, Harvard University, Cambridge, Mass); accompanied by Mr. ROBERT B. WARREN (of the Federal Reserve Bank of New York), re-called and further examined.

15,418. (*Chairman.*) In the final portion of your evidence yesterday you were dealing with matters which involve rather more close attention to the particular circumstances of India and the Indian people, and involve in fact considerations which are more local and less general than those which we had dealt with in the previous days' evidence. I want, if I may, to ask you a few questions to elucidate the exact bearing of your most interesting suggestions in this regard. Have you been able to give any consideration at all to the statistical aspect of the rupee coinage in India, namely, as to the amount of rupees outstanding, or the amount of rupees in active circulation?—(*Mr. Strong.*) Not beyond some figures which have been furnished us in connection with the inquiry into the plan and some study we have made of the literature, without, I admit, a very clear knowledge of the way the estimates accompanying the plan were arrived at.

15,419. You were not able to bring any critique to bear upon the figures as to the so-called hoards which have been laid before us by the Indian authorities?—I do not think we have any knowledge beyond the estimates that were submitted in connection with the inquiry, which I understand were carefully prepared estimates made in India by the authorities there.

15,420. That is so. Those are the figures we have been considering. Then as regards recent changes in the habits and customs of the people of India as regards on the one hand the forms of currency which are popular, and secondly as regards the habits of investment and banking, would you be able at all to assist us having regard to the change in the general aspect of Indian civilisation as regards those matters in recent years?—I hesitate to base any statement upon observations during a short visit to India five or six years ago, when I was there two months: so what I shall say to you I hope you will understand are no more than impressions.

15,421. Let me not ask you to give an impression, if you do not feel that you want to give it?—Well, I should say I left India with the impression, as the result of many talks with informed people in India, that the general Western impression, which I think is particularly prevalent in the United States, that India is a nation of absolutely rigid and unchanging habits, cannot be sustained, so far as my observation went. That is to say, some years before my visit to India, I had had some discussions of the currency problem of India, and the inconveniences of handling large amounts of silver rupees in making interior payments, and so on. Very much to my astonishment, when I reached India I found already, in a short period of time, that the convenience of the use of paper money had developed so that the paper rupee was becoming exceedingly popular. Our belief in America was that paper money was not a practical form of circulation for India, because of the difficulties of climate and possibilities of destruction, and the strong preference for silver, that it did not lend itself well to the habits and conditions of India. Now we find that in a comparatively short space of years the use of paper rupees has become not only common pretty well throughout India, but it is a very popular form of circulation. From that I would generally draw the conclusion that there will not be an irresistible, unchangeable habit in regard to currency in India which cannot gradually be dealt with. I am led somewhat to that view by the fact of the considerable growth of savings deposits in the banks in India. What little information we have from the literature would indicate that a very large proportion of the deposits in the banks in India are in fact savings accounts. The statement which I have heard made since reaching London as to the development of other phases of commercial banking would indicate that there is a considerable class of people in India who are ready, with the facilities afforded to them, to deposit their savings in a bank in which they have confidence. All of this, I admit, is rather fragmentary, but it would encourage me to believe that the development of deposit banking and the investment habit in India would appear to be far from an impossibility. It might take a great many years to bring it about completely, and organise it; but with the extension of facilities for making payments so necessary in a big country like India, I should think it was well within the range of possibilities that gradually the habits of the Indian people would change to their own profit. (*Dr. Sprague.*) May I say a word regarding currency, which I think is suggested by the American experience?

15,422. My question, you will understand, was directed at the moment toward the actual state of popular education and opinion on this subject in India. I do not know whether what you have to say will illustrate that?—I think it will have a bearing upon that point. It relates particularly to denominations. I should judge that the experience of the last few years indicates the clear possibility of further extending the use of notes in India. I think that American experience suggests that it may be inadvisable to encourage the use of one-rupee notes. The advantages of using notes of higher denominations are very considerable indeed; but

12 *May*, 1926.] Mr. BENJAMIN STRONG, Dr. JACOB H. HOLLANDER, and Dr. OLIVER M. W. SPRAGUE. [*Continued.*

whatever advantages there are from the use of one-rupee notes seem to me to be on the whole rather different from those which have to do with notes of higher denominations. In the United States it has been found very expensive to use one-dollar notes. The people now decidedly prefer such notes, partly because the silver dollar is a very large coin.

15,423. I think we are getting a little away from the line I was on. It is a most interesting point, but would you draw any very close analogy between the state of education of the people in the United States and that of India, as regards the use of small notes?—I think that the use of small notes may easily be developed in both countries; but the advisability of small notes as contrasted with large notes seems to me to rest upon a very different foundation.

15,424. That is a most interesting point. Mr. Governor, would you be able to assist us at all from your own personal experience as regards the amount of reliance which the people of India place now upon the silver rupee as such, as a silver coin of so much content?—(*Mr. Strong.*) That would be a very difficult question for me to answer.

15,425. That would be taking you a little beyond where you would care to go?—You would be taking me a little too intimately into the life of India.

15,426. If you please. Let me pass to one or two passages in your very interesting suggestions at the last meeting, as to which I should like to understand the weight of your suggestions. In paragraph 15,416 (xx), you say: "My own belief is, and I think this will be developed later in the talk, that at the outset once the bank takes over the note issue and the reserves, convertibility should be substantially by the methods now employed by the Indian Government." The methods now employed by the Indian currency?—I think possibly some misunder-restoration of the pre-war system. You are no doubt acquainted with the pre-war system of controlling Indian currency?—I think possibly some misunderstanding might arise through my, inadvertently possibly, over emphasising the development of a plan by stages. I put no particular emphasis upon the particular point where a change to the next stage of development should take place. That would depend entirely upon the extent to which the development of a full plan could be safely accomplished; and my thought, in arranging what I had to say, was to indicate that a growth by experience would be somewhat safer and better than to put the full responsibility instantly upon a new institution until it had developed a technique and experienced staff, and so on.

15,427. I think I follow you. Your opinion would be this. If things are in need of change by way of reform (of course, the first essential consideration is, does anything need change, or is there nothing which needs bettering in the best of all possible worlds),—but granted that they do need change, then presumably a plan must be formed to effect the required reform, whatever it may be. That plan must be a complete one and, of course, a workable one?—And would you also say a flexible one?

15,428. That is the point I am coming to. I understand the weight of your opinion is this: that in any region of reform such as we are dealing with here, of a central bank currency, the plan must be one which allows for its own introduction by stages in order to avoid any abrupt transition?—I should say by stages, partly to avoid abrupt transitions, which impose inconveniences or radical changes of habit at the outset or at once. But more particularly so far as the assumption of the various functions of the bank of issue is concerned, that too great responsibility should not be assumed at the outset until there has been some little test in the matter of the convertibility of the notes.

15,429. May I suggest keeping that clear, so as to proceed point by point? As I understand what you have just told us, you would say—make your plan, but do not try to bring your plan into effect all at once, because this is a world in which you cannot make big changes all at once?—That is a very general statement based upon our own experience of America.

15,430. I understand you have been very much impressed in this recommendation, if I may read between the lines, by the disadvantages that followed in the United States upon a too sudden transition?—Yes, from the possible dangers of too sudden a transition.

15,431. It was not what you were doing, but that you were doing it in too much of a hurry?—In too much of a hurry.

15,432. Now, as to your suggestion that convertibility should be substantially by the methods now employed by the Indian Government, you are sufficiently acquainted, no doubt, with the methods of the Indian Government before the war, which are now all the guidance that we have, to know that various defects have been alleged against those methods as a scientific means for the stabilisation and control of the currency? For instance, there was no legal obligation to sell bills to settle international payments, no obligation to sell exchange. That would be a difficulty in any system?—Yes, it would be, and has obviously been the source of difficulty in the pre-war plan. That, I would assume, is to be wholly corrected, if a central banking plan is adopted, by widening the scope of convertibility, so to speak, as rapidly as it can be safely undertaken.

15,433. Would you agree that an essential feature of any such regularisation of the currency system in the hands of the Central Bank is that the obligation should be to buy and sell some form of international payment?—Yes, I think that is fundamental to any plan.

15,434. In the second place, you are aware, no doubt, that in the pre-war methods adopted by the Indian Government with the gold standard reserve, there was no legal regulation of the amount of the gold standard reserve in relation to its liabilities?—I would understand that, and its distinct similarity to the conditions which prevailed in the United States before 1898.

15,435. It is submitted to us that, as a consequence of that, there was no insurance for the automatic contraction of the currency when such contraction was needed, and sharp criticisms are directed against the system by which the power of manipulation was entirely in the hands of a Government department. Those are matters which, no doubt, deserve consideration, are they not?—Quite so.

15,436. That is a defect in the pre-war system, from that point of view?—Quite.

15,437. Based upon this consideration, are you aware of the existence of what I might call a widespread suspicion of the gold exchange standard which was alleged to exist in the minds of the Indian public before the war; while, on the other hand, it is contended that there never was a real gold exchange standard. This is rather an excursion into psychology, but has that state of mind in the Indian public been brought to your attention?—It has. I attempted with some feeling of diffidence yesterday to touch on it when I referred very briefly to the difficulty of distinguishing between a practice which attempted to reduce peaks and troughs of fluctuation and one merging almost imperceptibly into the creation of an artificial situation in management, which I think would be bound to arouse suspicion, if I may say so. Correction of that defect in the management of the Indian currency and the exchange standard of former years, it seems to me, would be one of the objectives of a plan for a central bank and a gold standard of the character that has been generally discussed. In other words, it is desirable to eliminate this suspicion from the minds of the Indian people.

15,438. When such a situation has arisen, rightly or wrongly, it may be said to be clear, may it not, that there are great advantages in the simplicity of

a gold standard as a means of establishing the confidence of the people in its own currency?—I think that is a matter of such well-known experience throughout the world in connection with the gold standard, that it seems to me one of the main objectives of a plan for India.

15,439. Recognising that the gold standard does not necessarily imply a gold currency?—That always is implicit in the answer.

15,440. In a passage in your evidence you emphasised the need for caution in attempting anything in the nature of a gold standard in the sense of a standard based upon the Ricardo bar. I see you emphasise the need of caution in the adoption of such a standard. I wish you would amplify what you apprehend the danger would be. In the first place, there is a danger that the banks' reserves would be depleted in order to supply the demand for commodity gold. That, as you point out elsewhere in your evidence, is a question of the price at which the bank will sell its gold. As I understand from that observation, you would be of opinion that the bank would be defended against such a demand by keeping the exchange within the limits of the gold points, and keeping its price above the price of gold in the bullion market?—Yes; I naturally thought a plan could well be provided or a practice adopted which would protect the bank against a drain.

15,441. I want to look at the various headings of danger which are in your mind. There is one danger which can be guarded against in that way. The demand for the Riçardo bar, in exchange for notes, for purposes of currency is of course not to be contemplated, because it is not a legal tender, and it is not in itself currency. Where can the other danger be? The other danger would be in the demand for bars in conversion of the hoarded rupees. What would you say to this contention that, after all, if a man has hoards of rupees he can get bars for them in the market at least as cheaply as he can get bars from the bank, and so there is no greater incentive for him so long as no attack is made upon the status of the rupee?—In that event, the importation of gold (provided price adjustments were carefully fixed) through the instrumentality of the bank would be substantially no different from what has prevailed in the past. That, again, implies a well-organised bullion market in India with a close price at which the bank might appear to be, so to speak, in competition with that market, or the means of furnishing that market with gold. If, however, the bank became an instrument for cheapening gold for the bazaar demand so as to unduly facilitate its use for other than monetary purposes, then the answer might be that the price was not right. The question does resolve itself to a matter of price, does not it?

15,442. The defence of the bank in that regard works down to a matter of price. As regards the bank's own specific obligation to give gold bars against silver rupees or notes, one can say, in the first place, there is no reason to apprehend a bigger demand for conversion of rupees into notes when there is a legal obligation on the part of the bank than the demand which exists at present?—I should say that could be taken care of by the price charged without any special measures beyond that to defend the reserves of the bank.

15,443. I do not quite follow your answer in that regard. It is in the nature of the case that at some price the bank should accept the obligation to hand out bars in exchange for rupees. I thought this danger might be in your mind that there being admittedly large holdings of rupees held as a store of value, they might be thrown at the head of the bank for its gold bars as soon as that obligation is established?—Well, if those rupees offered to the bank are convertible, so to speak, at a rate of exchange which would produce gold in London plus the cost of importation of gold to India, it would involve no change in the former practices and require no other measures to protect the reserve of the bank.

15,444. There is no reason to expect a large demand as long as the bank is not under an obligation to provide it?—As long as the bank is not under a statutory obligation to provide gold at a fixed rate without regard to the exterior cost of gold.

15,445. Are there any other circumstances in your mind which lead you to express caution as regards the adoption of this particular form of gold standard?—I cannot claim to be familiar with the operations in the bullion market in Bombay, say, and the relation of the price of gold there to the rate of exchange. If it adjusts itself there exactly, as doubtless it does if it is a well-organised market, the establishment by the bank of a rate equivalent to the cost of bringing gold from, say, London, it seems to me would be satisfactory. I am always assuming that possible circumstances do not develop, creating a price for gold in the bazaars that would be (for some reason which I cannot describe, such as panicky conditions, or something of the sort) well above the banks' price for gold as fixed in the plan we have been discussing. You will know very much better than I whether that is so. I assume any plan adopted would harmonise the bank's price with the bullion price in the bullion market. Of course, the organisation of a central bank introduces a new element of control in the credit policy of the bank. The bank itself would have some power of contraction as a credit policy as distinguished from contraction due to the operation of the gold exchange standard.

15,446. Elsewhere in your evidence yesterday you said, in your opinion notes and silver rupees should be freely interchangeable and should retain their full legal tender quality. There are two distinct aspects of the rupee there, are there not? There is the convertibility of the note into the silver rupee as one legal condition, and the other legal condition is the full legal tender of the silver rupee. But the two are not necessarily interlinked?—Not necessarily.

15,447. You can have the one without the other?—They are quite different questions.

15,448. On general grounds it is frequently said to us that the true status of the silver rupee in India is a note printed on silver. Do you accept that as evidence of truth in describing the status of the note?—I should say so. As I recollect, there was a project at one time for issuing a base metal rupee in India which would be substantially the same thing.

15,449. It is a standard with a full legal tender; it is a token?—It would be simply a note printed on a piece of metal which would be redeemable just as a paper note is.

15,450. If that is the status of the note in your system, on general grounds is there any reason why one form of the note should be convertible into the other form of the note—why the paper should be convertible into the silver note, and the silver note into the paper note?—My statement yesterday was related more to avoiding changes which would disturb the Indian people at the outset of the plan.

15,451. I want to get a little deeper down into it, if I may, and see how we must approach the matter. I was hoping for the benefit of the expression of your views rather from the theoretical point of view of scientific currency. I was wondering whether if one was establishing the scientific principles of currency one can refer to any reason why, if you have two forms of currency, one should be made convertible into the other. Is there any advantage to be gained from that?—Well, I think possibly the advantage was that I had in mind the benefit of continuing a situation with which the Indian people were familiar.

15,452. On the other hand, it is put to us that by making the note convertible into silver coin you, as it were, teach people to look down upon the note in comparison with the silver rupee, which is not good for the note circulation. You impress it with a status inferior to that of the silver rupee, which is perhaps

an element of disadvantage?—By depriving it of its convertibility?

15,453. No; but by saying you may have a silver rupee for your note you put the note in a status of inferiority compared to that of the silver rupee.—You mean in contrast with gold convertibility?

15,454. Yes.—Would not that be very largely overcome if both were legal tender, and if no limitation of legal tender were made to apply either to the note or to the silver rupee?

15,455. Yes; I do not think there is very much importance to be attached to it. Next, if your note is convertible into the silver rupee, that rather necessitates the holding of silver in reserve, does not it?—Yes.

15,456. Silver is not a desirable constituent of one's reserve for the support of a paper currency?—Not in a fully developed gold standard currency condition.

15,457. Because silver currency is not available as national support?—That is a principal reason, I suppose. Silver has been relegated to use in token coins on that account.

15,458. If one were to look forward to the best possible condition for one's reserve, in supporting exchange and currency, one would like to get rid of silver?—And substitute gold.

15,459. But one cannot do so as long as the note is convertible into silver?—No.

15,460. Next, the silver content of the rupee is high; it has happened in the past, and it may happen again, that the bullion value of the silver content of the rupee rises above its face value. In that case the rupee tends to disappear. That is a constant threat to the efficiency of the currency, is not it?—That would continue, of course, as long as the possibility of enhancement in the price of silver existed and was a menace to the currency, if that possibility is more than a remote one.

15,461. That is what has happened in the past, and it may happen again. We cannot say that the currency is absolutely proof against disaster, so long as such an important constituent as the silver rupee is subject to that menace, however small that menace may be?—If that is a possibility, of course, the currency is subject to that menace so long as it is convertible in that way.

15,462. As long as the note is convertible into the silver rupee in its present form, that imposes a great difficulty if the silver rupee is to be held against the note, and the holder of the note is able to demand silver rupees. In that direction there is a substantial way of getting rid of this high-value silver coin and submitting a safer token of currency?—I have assumed that there would always be a need for a large and increasing circulation of rupees in India, for the small change of the country, and the extent of the silver reserve to be kept for that purpose is a matter for determination by experience and by what may be expected in the growth of the country's business. I should suppose that a considerable reserve of rupees would be required for a good while. How long I would not be capable of judging until the status of the Indian currency had been well determined—that is, how much of the silver rupee was hoarded and how much was in active circulation. That would probably be discovered in the course of the development of this plan.

15,463. Undoubtedly a reserve of silver rupees must be necessary for years to come. Are you acquainted with the present state of the Government of India's reserves as regards rupees?—Only that it is very large—possibily unduly large.

15,464. Ninety crores?—Yes; against something less than 200 crores estimated to be in active circulation.

15,465. The point has been made that so long as you maintain the convertibility of the note into silver rupees, you cannot get rid of the silver rupee as a standard coin?—Is it necessary to do that? I assume it will not be necessary or possibly, will not be desirable to get rid of it.

15,466. Do you look upon it as a desirable coin in itself as a medium of small payments in the country, remembering that it is a high-value silver coin?—That question of value seems to be the premiss of the discussion. Of course, it is a question of degree, naturally, how close the danger point is. My personal opinion is that the danger is somewhat exaggerated in people's minds because of recent experience growing out of most unusual conditions.

15,467. Will you look at it from another point of view? Will you look at it as a token that goes into circulation carrying two-thirds of its own reserve? Is not that an uneconomic arrangement?—I am not sure that I understand your question.

15,468. The silver value of the rupee is so high that if you look upon it as a note it is one of the most expensive forms of note?—I should say that is a question which relates very much to the attitude of the Indian people towards the rupee, and it would be very difficult for me to answer.

15,469. It is a matter which requires for its reply a consideration of the psychological question of the state of mind of the uneducated Indian towards the rupee, which is really what we started from at the beginning of the discussion?—Very much so. As the gold convertibility of any currency introduced into India increases in the estimation of the people, of course the silver would gradually sink more to the condition of a purely token coin.

15,470. There is one other matter in connection with your evidence at the close of yesterday, about which I should like to ask you. You say in paragraph 15,416 (xx): "At some point of time after the establishment of the Bank, the definite value of the rupee might be established"; and you go on to refer to the "advantage of waiting for a period." Under the existing state of affairs in India is it possible to get on without having some rate to which to work in practice?—I could not answer that question categorically. I should say that the question of rate was one that depended for its determination upon an examination of conditions with which it would be very difficult for me to familiarise myself. I mean, it involves consideration of the extent to which adjustment of prices and wages has taken place to the changed value of the rupee, and also to the particular technical operation of the exchange reserve.

15,471. It would involve, in the first place, consideration of the amount of reserve, would it not?—Yes.

15,472. And its relation to the outstanding liabilities?—Yes.

15,473. Are you able to consider the matter from the point of view of the statistical position of the reserve?—I should say that the three main considerations would be, first, the domestic readjustments to a given price of the rupee; the extent to which any artificiality has entered into the management of the external price; and the size of the reserve.

15,474. As I understand your present reply it is that after considering these matters, after deep and prolonged consideration, you would not be surprised if the conclusion were come to that there is nothing to be gained by waiting to fix the rate of the rupee?—The chief object to be gained is to give the rupee a stable value as soon as possible and not to attempt to do so so soon that the value which is given to the rupee is subject to a strain that would jeopardise that value at any time. Those are conditions, of course, of which I am quite unable to judge.

15,475. Those are matters involving the consideration of the actual relation of the reserves and their present volume to the volume of trade?—Yes.

15,476. And to the balance of foreign trade?—And the general assumption that India over the years usually has a favourable balance of trade.

15,477. I understand that your own opinion as expressed here, which seems to be rather in favour

of waiting, might be corrected if you thought such a study as that to which you have referred—and which I may say we have undertaken—was founded on the view that more was to be lost than to be gained by a further period of uncertainty as to what the accepted ratio of the rupee was to be?—Of course, I do not know how rapidly readjustments of the character necessary would take place in India. The rupee has been stable at around 1s. 6d. for a period of 18 months or something like that. Those who are capable of judging, which I am not, as to whether generally Indian conditions have adjusted themselves to that value it seems to me should be the ones to determine whether any further delay on that particular account is necessary or not. The condition of the reserve is a matter of exact knowledge, and the practice in the management of the reserve is a matter of exact knowledge, so that it would seem to me not difficult to arrive at a decision as to the time at which the value of the rupee should be definitely fixed. The statement that I made was one of natural caution, feeling that it was a subject that I did not understand intimately from the study of conditions in India and that if there were any doubts they might be cured by a delay if delay was justified, always admitting that the desirable thing is to get stability at the appropriate price as soon as possible.

15,478. I think I follow that. You would not really, out of caution, pronounce an opinion as to whether the time had come to stabilize or not until you had inquired into the statistical basis of the situation?—No. My arrangement of this matter was just to make the statement a conservative one from the standpoint of one speaking from a distance.

15,479. It has been frequently said to us that there is one substantial reason why one should wait before stabilizing the rupee and that is because the world's gold prices may be upset by the efflux of the redundant gold from the United States. The evidence given by yourself and your colleagues has rather, to my mind, weakened the force of that contention. That would be a true deduction, I think, from the evidence which you have given?—I think the gold in the United States is under reasonable control.

15,480. (*Sir Reginald Mant.*) I should like to ask you a few more questions regarding the interchangeability of rupees into notes. In your reply to the Chairman I think you said—please correct me if I am wrong—that you did not see any particular reason why one form of note should be made convertible into another form or why the paper note should be convertible into the silver note?—I think that I should make a more general answer to this particular question than possibly I have. Much of the determination of that question of convertibility really depends upon the habits and attitude of the Indian people. The only point that I made in the remarks yesterday, or intended to make, was that if the Indian people have a certain regard by habit and by long usage for the kind of currency now in use in India, might it not be wise to avoid making any sudden change in its status as to convertibility or anything else until the plan had progressed to a certain point. When it comes to the specific programme of convertibility, as Dr. Sprague expressed it the other day, you will lead me into rather deep water because I am lacking in the knowledge of conditions in India which is really essential to answer many of these questions.

15,481. What I wanted to get from you was some help from the experience of the United States. You told us the other day that it had been accepted as a general principle and laid down by law that the different forms of currency in the United States must be maintained at parity?—Yes.

15,482. Is not that the position?—Yes.

15,483. Is it not desirable to apply the same principle to the Indian rupee and the paper note, viz., that they should be maintained at parity?—Well, I do not know that that would apply particularly to a coin which partakes so largely of the character of a token coin as with the silver rupee.

15,484. But your different notes in America are all tokens and you maintain them at equilibrium—at parity?—They are not tokens in the sense that the subsidiary coinage of the nation is a token coin.

15,485. We were speaking of the rupee as a note printed on silver?—Yes.

15,486. You have in the United States five different kinds of notes printed on paper?—Yes.

15,487. And you have a legal obligation on the bank to maintain them at parity?—They are completely convertible into gold.

15,488. That leads me to the point, assuming that you must maintain parity, is there any other way of attaining that object except by making the different constituents of the currency ultimately convertible into gold or some other standard coin?—Of course, the legal tender quality has an effect upon its capacity to make payments. The common method of maintaining parity as in the United States is to maintain complete convertibility of the gold.

15,489. I do not quite follow that?—I say our method of maintaining parity is to maintain complete convertibility with gold.

15,490. Could parity be maintained between the rupee and the note in India except by means of a legal obligation on the Bank to convert notes into some form of legal tender or into rupees?—I do not think I could answer that question. It depends entirely on the attitude of the Indian people and how satisfied they would be.

15,491. If they were satisfied without a legal obligation?—Without a legal obligation. (*Dr. Sprague.*) May I interject a remark here?

15,492. Certainly?—If you make both the notes and silver rupees strict legal tender in practice I think you will find that you are bound to make them inter-convertible for, let us suppose that there arise any preference or discrimination on the part of the public in favour either of the silver rupee or of the note that type of currency which was less in favour being legal tender as well as the other would be the form which would be turned in to the Government in payment of taxes and otherwise. It would be the working of Gresham's law, not by forcing a particular kind of money out of the country but by forcing into the coffers of the Government and the Bank the kind of currency which was the least well-thought of. You are not going, in my judgement (I think all monetary experience will bear me out) to be able to maintain two kinds of currency or money as legal tender in the country unless in practice it is possible to convert one into the other. Again, in the event that silver were to appreciate in value so that its coinage value became less than the bullion value, consider the circumstances under which that might conceivably arise. It would arise either because of an extensive demand for silver within India or without India. If it were without India and the silver were exported it would furnish the necessary exchange with which to supply the Bank with balances abroad or with gold in India with which it could then issue such a quantity of notes as might be needed to take the place of the silver rupee which had been melted down and exported as bullion. I do not think you need to anticipate any difficulty, assuming no further coinage of rupees, from the possibility of an advance in the price of silver beyond the present coinage value of the rupee. I believe on the other hand in order to avoid any unfavourable reactions as regards silver in India, that it would be practicably desirable and worth while to make the notes and rupees interchangeable.

15,493. (*Chairman.*) That is the point to which we are addressing the question. How would the difference arise between the value of the rupee and the note as long as the supply of rupees is controlled?—I question whether any difference would arise, it is

simply the sentimental influence that might act as a matter of psychological effect at the outset? (*Mr. Strong.*) I think that attitude was indicated in my answer to that question yesterday: that at the outset the safeguarding of the plan might make that desirable. At least that is what I had in my mind.

15,494. I do not quite follow you?—Inter-convertibility.

15,495. That is what you say?—Yes, that is my answer, at least during this early period.

15,496. (*Sir Reginald Mant.*) Then you would consider it desirable at the outset at any rate to have inter-convertibility?—Yes, that was my feeling, not to make the change too suddenly. May it be a fair comment also to say that the introduction of the plan to sell gold at a fixed price will, of course, have a strong effect in maintaining parity anyway.

15,497. (*Chairman.*) I cannot see how it is to arise under these conditions?—How the difference in value would arise?

15,498. How would there come to be a premium if the gold value for the rupee had been fixed, since both the note and the rupee would be changeable into the same quantities of gold?—Would it not be the case, as soon as the convertibility into gold was permitted that the tendency would be for the gold reserve to increase and the silver reserve gradually to decrease and the silver to go into circulation with the growth of the country's business.

15,499. That may be so?—Then it would not be necessary at the outset of the plan to take any steps to change the bullion content of the rupee which has been 165 grains for many years, has not it?

15,500. It would be necessary, but it might not be desirable?—Those are the points.

15,501. (*Sir Purshotamadas Thakurdas.*) Could you tell me whether all the silver that had to be replaced in the Treasury of the U.S.A. under the Pittman Act has now been replaced?—There is a dispute about a small matter of 15,000,000 ounces or something of that kind otherwise it has all been repurchased. I think there is a question about whether one additional month's production should have been taken or not.

15,502. For all practical purposes all the silver has been replaced and silver will now have to be sold in the open market. The U.S.A. Treasury cannot take any more silver under the Pittman Act?—Aside from that which is required for subsidiary coins.

15,503. The American Treasury can therefore take no more silver to replace that which was given to India under that Act?—No considerable amount. In fact, I have some doubt as to whether that further 15,000,000 ounces will ever be purchased.

15,504. We were told that gold currency is not necessary for any country and if I remember it aright Professor Sprague said that he is opposed to gold currency for any country. It is the fact that in the richer countries in the world at present gold currency is in vogue and is presumably authorised by statute—I am referring to America and Holland?—Yes. Holland has no gold coin circulation to speak of.

15,505. They tried to put out gold coin but it returned?—They did the same thing in Switzerland and it was unsuccessful.

15,506. That is because the people do not want it. They know that the gold is there in their Treasury and they feel they can go without it because they have got more accustomed to notes. But according to the Statute the people can have it when they want it?—Yes, they can in the United States and presumably they can in Holland and Switzerland.

15,507. Therefore the Central Banks in the west have not yet come to any arrangement by which gold currency can be said to be actually prohibited in the countries which can afford it?—No, that step has not been taken.

15,508. Would I be correct in inferring that if such a step was recommended for any of these prosperous countries the people of those countries would not approve?—To discontinue gold coinage entirely?

15,509. Yes.—Of course, the payment of gold coinage and its circulation has been discontinued in England.

15,510. Under circumstances which are quite different from the circumstances of the United States, Holland, and Switzerland—is not that so?—Yes, under the Gold Standard Act.

15,511. I was thinking now of countries which can afford gold currency. There the people would not countenance the discontinuance of it by a statutory prohibition?—I should say that to attempt to maintain a gold currency and not give it convertibility would be a step backwards.

15,512. Would it be?—Yes.

15,513. Therefore they would like to have it available at their option. The people may not use it as long as they do not want to, but when they want to they can always use it and the Government would be bound to give it out?—If you do not give them the right to get it they will all want it.

15,514. Therefore as long as they know they can get it whenever they want it, they do not avail themselves of it?—But we must distinguish between the need for gold currency in the domestic sense and the need for gold for making international payments.

15,515. I wish to restrict myself if you do not mind to the internal demand for gold but we will come to the external demand which has to be met by every country unless it is anxious to lose its own credit in the international market. The psychology all the world over is that when people feel that they can have a thing they may not want it, but when however they are kept away from it they get anxious for it and no amount of preaching can bring conviction to them?—May the answer to that as to India not be that there is a great deal of gold in India and if people desire gold currency in India arrangements might be made to coin this gold for them.

15,516. Yes. Let us come to the Indian question, and if you want to qualify your answer here with some reference to the Indian question, I am quite agreeable to it.—I merely had in mind that where the demand for gold currency exists, the determination to introduce a gold currency depends upon a great many circumstances, of course, the most important being whether the country can afford it. The determination of whether India can afford it is partly a domestic question and partly an external question. If the Indian people have supplies of gold which they are otherwise using and desire to have it coined for circulation, and the bank position can be protected as to external payments, is not the means available now to satisfy them?

15,517. Then the question of gold currency is even to-day for them to decide?—Yes.

15,518. So far as the international aspect of it is concerned, have you any remarks to make?—I think we covered that pretty fully in our former statement.

15,519. Your opinion is that no country should disturb the international market by any large borrowing of money to enable them to draw off gold?—Quite so.

15,520. What would you say about the normal demand for gold by India with a favourable balance of trade from year to year in the ordinary course?—In what respect?

15,521. If every year that there is a favourable balance of trade for India she took gold, do you think, from the international point of view, there would be anything to urge against it?—No; India gets gold freely now, and I do not think there is anything to be urged against India buying gold.

15,522. I thought Professor Sprague said that he would for the present recommend a gold exchange standard, under which India would have gold securities in foreign countries, and would not draw the gold that was due to her for the favourable

balance of trade?—(*Dr. Sprague*): May I explain my position.

15,523. If you please?—If it were quite clear that the pressure upon the gold supplies was such as to entail a downward tendency of prices through the years, and if it were also clear that this was in part due to the absorption of gold by the people in the United States for hand to hand use, I think it would be quite possible to convince public opinion that we were using gold in an undesirable way, in a way that was hurting us; and I believe it would be quite possible to secure legislation limiting the amount of gold paid out for general use. Now when it comes to India, I was not referring to the absorption of gold for non-monetary purposes; I was considering the situation that would present itself with the establishment of a gold standard and gold currency with gold then being absorbed in India for the combined purposes of non-monetary uses and monetary uses, and I felt that in the absence of the development of banking and investment arrangements which would tend to spread the monetary inflow in the years of favourable balance, that it would be disturbing to the functioning of the gold standard throughout the world. It is not a question of the right of India to secure in payment gold in the event of a favourable balance. It is simply the danger to the functioning of a delicate mechanism throughout the world resting upon gold, if the gold is to be subject to sudden withdrawals of very great magnitude.

15,524. But that danger would not be there if the gold were not to be withdrawn in large quantities, as you said just now. Then that danger disappears, does not it?—If the gold is not drawn suddenly in large quantities.

15,525. Therefore if the scheme which you have criticised so fully is not to be put into operation, that danger does not exist at all?—It does not.

15,526. Regarding India drawing gold for monetary purposes, the danger that you refer to would only appear if that gold was allowed to reach the people in such a manner that it could not be brought back to the treasury when required, otherwise that danger also need not be feared?—That danger would be absent.

15,527. Taking the devastated countries which are now being helped to get on to a satisfactory monetary position, is there any condition attached to the assistance given by the United States, that they should only draw a certain quantity of gold and not more in the case of prosperous years for their export trade?—(*Mr. Strong.*) Do you mean in connection with any specific arrangement?

15,528. In connection with their withdrawing quantities of gold from the world?—No, there are no specific limitations upon the operation of the gold standard in the United States.

15,529. Take Germany. Germany is now, I understand, I speak subject to correction, in a position to draw gold steadily. The United States, have helped Germany with a substantial loan. Is there any condition attached to the loan, or is Germany party to any sort of conference whereby Germany has committed herself not to draw more gold than a certain quantity per year?—I do not know of any such understanding.

15,530. Is there any understanding amongst the various powers in Europe that each one will only draw up to a certain point and not beyond?—I do not know anything about that.

15,531. Therefore everybody acts on his own, according as he is justified by the trade circumstances of each country?—Yes and the credit policy of each country.

15,532. As justified by the circumstances of each country from year to year?—Yes. (*Dr. Sprague.*) With the difference that these European countries are quite clearly not in a position to draw disturbingly large amounts of gold, as perhaps India might be.

15,533. You mean for those countries no scheme like the one you have criticised has been put forward so far?—No, I mean that they are not in an economic position to draw extraordinarily large amounts of gold from any quarter in a short period of time. Practically we know that nothing can develop in Germany which would make it feasible for them to go into the markets of the world and buy say 200 to 300 millions of gold in the course of say the next five years, or of any other five-year period.

15,534. But for that assurance, you would apprehend that they might draw as much gold as they possibly could. Is not that so?—Yes; but that possibility is very small.

15,535. You are only relying upon their absolute inability, and not upon their sense of proportion, as to what the world needs and what the world can stand?—Upon both, and including banking and investment operations.

15,536. I think you said that the question of selling silver should be decided after very serious consideration as to the dangers which might be caused to the stores of value of the holders of silver in India, owing to the reduction in the value of silver?—Yes.

15,537. Would the same consideration be equally serious, in your opinion, in fixing the ratio for the exchange in India, namely, if with the 1s. 6d. ratio the stores of gold in India were likely to be depreciated, would you say that that should be taken into consideration?—Is this on the determination of whether the ratio shall be one and six or one and four?

15,538. That is it. In fact would you take the same consideration that you urged in connection with the silver also into serious consideration in connection with fixing the exchange for gold?—I think it is one factor which might well be taken into account.

15,539. You would take it into the same serious consideration as you urge should be taken in connection with silver?—No; because there is, of course, a difference between 12½ per cent. and 50 per cent.

15,540. When you say 50 per cent. you have in mind the apprehended depreciation in silver?—Yes.

15,541. But barring that proportion, you would give it the same consideration?—As one of the factors.

15,542. (*Sir Alexander Murray.*) I would like to refer to a matter that you spoke of yesterday, when you said that a money market had to be created in America, and that we should have to do something of the same kind in India, if we are going to have the Central Bank functioning properly. As I understand it in America your Federal Reserve Bank rediscounts members' paper only?—(*Mr. Strong.*) We also buy bills in the market at times from dealers.

15,543. Can you explain the difference between the two types of bill, apart from the fact that you have the member's name in the one case, and you have not the member's name in the other case?—In practice we have the member's name in both cases. The type of paper described as commercial paper which we discount at the Bank rate, which is now 3½ per cent. in New York, is paper given by customers of commercial banks to represent their borrowings at their commercial banks where they keep their accounts, similar to the type of transaction expressed in the advance account of the English Joint Stock Banks; that is the single-name paper indorsed by the member bank, and we discount that at the Bank rate. The other type of paper is the bill of exchange that is common in the London market, a bill drawn by a shipper on some banker under a credit that opened in connection with a shipment of goods. These bills bear the obligation of the drawer, of the bank which accepts the bill and almost invariably—in fact invariably—of some banker by endorsement. Most of these bills reach us through our own members, but through a little different type of transaction, and at a lower rate.

15,544. That is the point I wish to get at. You differentiate between the bills that come to you through the member banks or outside corporations or private banks?—We differentiate to that extent only,

and I think I should explain this a little more in detail to give you the information. At the outset of the organising of the Federal Reserve Banks there were no bills in the New York market at all. The American banks were not in the habit of opening and drawing credits, so there being no bills there were no dealers, and it became necessary to develop the practice of opening commercial credits which the banks were only authorised to grant since the adoption of the Federal Reserve Act, and it became necessary also to develop the practice of dealing with them in the market and to develop dealers. That has been gradually done, so that there is a considerable volume of bills circulating in the market exactly as there is in the London market. Our ordinary practice is to take those bills from our own member banks. We nevertheless must be in a position to protect the dealer as is the case in the London market. So we always stand ready to take bills for short periods from dealers in bills in case the market goes against them; in other words, when the carrying rate for bills becomes too burdensome for them in the money market. So that you may say we have three types of transaction in connection with the paper that is current in the banking system. One is the discount of commercial notes, notes of hand, for member banks at the published bank rate, which is a fixed rate. The other is the discount of bankers' bills for our member banks at a lower rate—it is a better class of paper, of course—which is a matter of current practice every day at the bank. The third is an occasional transaction with dealers in bills where we take over portfolios just as they do in the London market, when bill houses "melt" their bills. But generally, that type of advance is made by the Reserve Bank for a very short period. It is comparable to the 7-day advance in London.

15,545. Are those bills that you speak of New York bills, or big town bills?—They are mainly New York bills, and other big town bills like Boston, Chicago, and Philadelphia.

15,546. I can see the difference between your bills endorsed by your member banks where you have got the security of the member bank and against which you have not only the name, but you have its capital deposit and its security deposit, so that you run no risk of any description when you discount the member bank bills.—The reliance is principally on the solvency and good condition of the member bank.

15,547. In India we have no member banks, and I see no prospect of our having member banks, so that the type of bill that we have to discuss in India is the ordinary up-country bank bill, so to speak. How do you differentiate there between the rates that you levy as against the different types of bills taking into account the present state of the bank and the character of the bill?—We have a uniform rate in every district for the discount of commercial paper, and for the purchase of bankers' bills. Those rates may vary between different districts, but they must be uniform throughout each district. Consequently a country bank in a district where rates are high might seem to have some rate advantage over the big city bank in the Federal Reserve city where we are located, and in fact those country banks do enjoy an advantage. In other words, there are wider margins of profit, and they can only be dealt with by the exercise of supervision and influence with the country banks as to the extent of their borrowing. It is a matter of some difficulty because the fact that they keep their reserves with us, and are required to do so by statute, might create an impression that as a matter of legal right they could come to us and borrow. It is a matter that is only capable of being handled by establishing a proper intimate relationship with our members, and where they appear to abuse our facilities, to explain it to them and restrain them by personal influence. The rate is not always effective in doing so in the country sections.

15,548. Did you find any prejudice existing against the rediscounting of paper? With us there are two types of prejudice, if I may say so, against it. There is one that the individual merchant does not like to see his paper peddled about the market to any extent—I am speaking of India now—and the other is that banks do not like it to be thought that in order to finance their merchants they have got to go to bigger banks for assistance. We have had it given in evidence that some people do not care to go to the Imperial Bank lest it be thought that they are seeking assistance which might prejudice their accounts with their customers, and indeed, rather than re-discount bills, we find banks willing to give their own name and their own collateral, and take the loan in their own name rather than re-discount the bill. Have you had experience of those two points in America?—Your question is, first, as to the prejudice about borrowing money?

15,549. On the part of the bank, and on the part of the individual merchant?—The prejudice on the part of the bank has been rather deep-rooted. Many member banks have a certain reluctance to show in their published statements that they have borrowed money; but the need for borrowing from the Reserve Bank became so widespread as soon as we had a war to finance that a considerable amount of that prejudice was overcome. In the country districts where we have had in past years since the war a good deal of pressure for credit accommodation, I think the necessities of the different localities had a great deal to do with overcoming that prejudice; but it is a fact that prejudice does exist among the member banks against showing borrowed money in their statements, and inasmuch as they publish statements of their condition twice a year, when the time approaches to publish their figures we experience some little difficulty in meeting the situation because a great many banks try to get out of debt at the same time.

15,550. In the case of a member bank that discounts paper with you, who presents the bill? Does the Federal Reserve Bank present the bill to the individual merchant, or does it go back to the member bank to be presented?—There is a very fundamental question involved there. When the member bank discounts customers' paper—that is, commercial paper—that paper is almost invariably returned to the member bank and is not presented to the merchant. Where we buy bills accepted by a bank the customer relationship does not exist; such bills are presented in the usual course to the bank which accepted the bill, which is very rarely the bank for which we discounted the bill. Of course, that is one more reason for developing the habit of using these bills, that we divorce our discount operations from the customer relationship between the member bank and the borrower.

15,551. Can you tell us anything about the relations which exist between the Government and the Federal Reserve Bank?—In what respect?

15,552. As regards the appointment of directors and the appointment of governors. What is the influence exerted by the Government, if I may put it in that way, upon the Federal Reserve Bank?—The organisation of the Federal Reserve system is of this character. Each regional bank, of which there are 12, has a Board of nine Directors. Three of them must be bankers, and three of them cannot be bankers. Six directors are elected by the member banks by a rather complicated system of balloting, and they serve for three years. The other three directors are appointed by the Federal Reserve Board, which is the supervising body that sits in Washington. The Federal Reserve Board members are Government officials in the sense that they are appointed by the President and their appointment confirmed by the Senate. The Governors of the Federal Reserve Banks, who are the chief executive officers, are appointed by the Board of Directors of the Federal Reserve Banks and not by the Federal Reserve Board. That Board consists of six men and two *ex-officio* members who are the Secretary of the Treasury and the Controller of the Currency. There are certain definitions as to

what sort of men they should be. They must be men fairly representing commerce and agriculture, and be men of some banking experience. There must be not more than one appointed from one Federal Reserve district. There is a prohibition in the statute against both officials and members of Congress being members of the Federal Reserve Board.

15,553. Do I understand you to say that no Government official, no member of the Senate, or no member of the House of Representatives can be a member of this Board?—Of the Federal Reserve Board, no.

15,554. And of the Federal Reserve Bank Boards?—By practice, and as a result of rulings by the Federal Reserve Board, no person holding a public office or actively engaged in political matters is regarded as eligible on a Federal Reserve Bank Board. I think I should say that I am making this statement without any regard to conditions which may prevail in other countries. This seems to be an arrangement and a practice which satisfies the sentiment in the United States.

15,555. Where does the Controller of Currency fit into this arrangement?—The Controller of the Currency is an officer appointed by the President who is charged with the supervision of the National Bank system, and he has a large organisation scattered throughout the country engaged in examining 10,000 National Banks, all of which are required by law to be examined twice a year.

15,556. For which purpose he has a big staff of examiners?—Yes; all over the country. They are divided up into districts. There are 12 head examiners, each allocated to a Federal Reserve district, and each has his staff of assistants.

15,557. As regards other Government officials, one on the Board is the Secretary to the Treasury?—Yes.

15,558. He is Chairman of the Board, and it is really an *ex-officio* position, and he does not actively interfere, nor does the Controller actively interfere, I suppose, in the immediate management of the banks?—Well, I should have to ask you to define what you mean by "interfere."

15,559. I will leave it at that?—They are active participants in the deliberations of the Board. The Controller of the Currency occupies a very important position in relation to the federal reserve system, because he has the supervision and the general regulation of the great body of the membership, the National Banks. In the same way the Secretary of the Treasury is responsible for the Government finances, and we are Government's fiscal agents and do all their financial business, so that the intimacy of relationship is fixed as a matter of necessity. Whether they are members of the Board or not, that relationship would of necessity be a very intimate one.

15,560. The Federal Reserve Banks act as fiscal agents of the United States Government?—Yes.

15,561. They have taken the place of the old Treasuries to a large extent so far as those collections are concerned?—The sub-Treasuries have been discontinued and closed.

15,562. In the outlying districts—in the hinterland of America—where probably there are no head offices, so to speak, of the Federal Reserve Bank. Who does the collecting in those particular places?—Of the revenue for the Treasury?

15,563. Yes?—That is done by a carefully worked-out arrangement by which the revenue collectors located in towns and cities where there is no Federal Reserve Bank, deposit the revenues collected in the National Bank in that town, and the National Bank transmits them to the Federal Reserve Bank. You must have in mind that the National Banks are also by law designated as fiscal agents of the United States, although their duties have become very much less active since the establishment of the Reserve Banks.

15,564. The commercial National Banks, members of the Federal Reserve system, have deposits with the Federal Reserve Bank to secure good management, and other things of that kind?—They carry their reserves with the Federal Reserve Banks.

15,565. (*Sir Maneckji Dadabhoy.*) In discussing the question of stabilization with the Chairman this morning you laid stress on three points. One of them was that we had to decide whether the requisite domestic adjustment had taken place; another important question was the size of reserves. Then you gave as a third reason that it is desirable to go to stability at the proper price. When you speak of the proper price do you refer only to Indian conditions or do you refer to international conditions also?—I think in your preliminary statement you over-emphasized my language a little bit, I was not attempting to lay down a *sine qua non*. I was merely expressing the opinion that those were three important considerations to be borne in mind in connection with fixing the value of the rupee. I would not attempt to suggest that it was a *sine qua non*. The judgment of this Commission is much better than mine.

15,566. I will accept that modification. Then in deciding the question whether domestic adjustments have taken place you mean by that the prices in India?—Yes, I mean generally the Indian readjustments of prices and wages.

15,567. You do not attach any weight to Indian prices adjusting themselves to international prices?—I think that has a bearing upon it.

15,568. You also suggested a postponement in the matter of stabilization until the establishment of a Central Bank. You are aware that on the Statute Book of India there exists at present an inoperative ratio of 2s.?—Yes.

15,569. That ratio has existed for some years now. The present instabilization interferes with the trade and commerce of the country with European countries, as well as with the internal trade also in some measure. Would it be advisable with this inoperative ratio existing on the Statute Book to postpone the settlement of the stabilization rate of the currency?—I do not understand that there is an unstable condition of the rupee. I gather you have had a rather stable value for quite a period now.

15,570. Quite so, by a certain amount of manipulation. We have obtained a certain amount of stabilization during the last 18 months but it has been attained by sales of bills and by manipulation at times by the Government for keeping the ratio to a certain figure?—That is a matter I know nothing about.

15,571. You were not aware of that?—No.

15,572. Speaking about the establishment of the Central Bank you referred to two or three matters, and particularly to a third class of deposits which you say is the reserve of incorporated banks and of the private moneylenders—that is the Shroffs and Marwaris and those who trade directly through a wide-spread system of moneylending which is a characteristic feature of India. You also laid emphasis on that class of deposits in that they have a very important function to perform in the credit operations of the Indian people, and you said that some consideration must necessarily be given to the relationship between the bank of issue and that class of moneylenders. May I ask you to explain what relationship you contemplate?—I was endeavouring in that statement to bring into contrast conditions that exist in the United States and those that exist in India. In the United States we have about 30,000 incorporated banks of which one-third are members of the Federal Reserve system but covering all parts of the country. Hardly any town in the United States which has a bank is without membership in the Federal Reserve system. Those are incorporated banks. They have fixed capital which is fixed by law or fixed by the terms of their organization. They are required to keep a fixed reserve with us. In India you have no such banking system. You have not got 30,000 separate unit banks in all the towns and

cities of the country, but you do have a system of moneylending represented by the Indian bankers and moneylenders. So that the conditions in India being wholly different from those in the United States, it seemed to me they would require special study as to what type of relationship could be established between the moneylending people scattered throughout the whole of India with the bank of issue, if one was established. It would necessarily have to be upon quite a different scheme of relationship from the rather formal and mathematical one that can exist with us where the capital is fixed and where the reserves are fixed by law. I was not attempting to offer a suggestion as to how that should be done, but I was trying to bring out the fact that the conditions in India might not permit of the adoption of a system exactly like the one we have in the United States.

15,573. The Indian moneylending system is a peculiar organisation. In the American system you have a big organisation working as a complete entity, but I am unable to conceive any process by which the Indian organisation could be brought into direct relationship with a Central Bank or bank of issue?—You see no way by which it could be done?

15,574. No. Can you indicate the lines upon which it could possibly be done?—That would be very difficult for me to do except to explain that were banking by the Indian people to be developed to a point that in any city or town the bank felt justified in accepting the account of a banker in that town upon terms and conditions set out by the bank as a standard of relationship it might be possible to establish a direct relationship. It seems to me it is a matter that would grow gradually by experience.

15,575. Are you aware that the rate of interest as well as the rate of discount prevailing among this class of people is much higher than the bank rate? —I gather so.

15,576. Does that make it absolutely impracticable to interweave a system of that kind?—It does make it difficult. I am reminded and I think I have mentioned the fact that we have very much the same situation in America. In the more remote sections from the money centres it is not an uncommon thing for banks which are members of the Federal Reserve system to charge as much as 12 per cent whereas the bank rate may be only 4 per cent. So the difference in rate with us has not proved an insuperable obstacle to the relation. It is more a matter of management and practice.

15,577. But it not relatively so wide in the United States as it would be in India?—I am not well enough acquainted with the differences in rates to answer that question.

15,578. Speaking about the constitution of a Central Bank yesterday you said a Central Bank is only possible where a highly organized money market exists. In regard to the organized money market I understand you refer to the system of a network of banks, or have you got something else in contemplation?—I say that the proper functioning of a Central Bank will require a money market in which it can function. It may not be necessary to create that in advance; we had no bankers' bills in New York when the Federal Reserve banks were established. As a necessary and collateral development of the operation of a Central Bank it would be well to promote the development of a type of money market in which that bank would easily function.

15,579. You mean to say that it is not necessary for the existence of a bank that there should be banks before this Central Bank is established, but the money market will develop?—It will develop.

15,580. It will develop the work of the Central Bank if those banks do exist?—I think that has been the history of Central Banks. The market develops around it.

15,581. In connection with the successful establishment of the Central Bank you referred to the anomalies which exist in the Stamp Act about negotiable instruments and stamps on bills and cheques. Do I gather there is no stamp duty on bills of exchange in America?—No. We had one during the war, and I think it was the first tax abolished when our tax reduction took place at the end of the war or it was one of the first.

15,582. It was only temporarily put on during the war?—Yes, as a war measure.

15,583. All negotiable instruments bear no stamp duty of any kind?—I do not think any negotiable instruments which are current in banking and which reach the Federal Reserve Bank have any stamp tax now. I believe there is a stamp tax on brokers' loans which we do not handle, of course, at the Reserve Bank.

15,584. Speaking about the constitution of the bank you also said that the banks are prevented from making overdrafts by statute?—Yes, that is true.

15,585. Then you qualified that statement by saying that overdrafts were permissible on securities?—Not overdrafts.

15,586. Not overdrafts?—No.

15,587. No form of overdraft is allowed of any kind?—No.

15,588. Either on current account or on cash credits?—No. I think there are a few States which may be an exception to that, but, generally speaking, you may say that there is a prohibition against an overdraft, and that applies to the National Banks especially.

15,589. But if those drafts are supported by adequate securities, what is your objection? Can you explain to me what is the real object the United States Legislature had in view when making such a stipulation?—Speaking from the standpoint of the Central Bank, which was the subject of our discussion, one of the objections is that the overdraft, which may indeed represent the best type of credit in use, does not produce a negotiable piece of paper which is capable of being discounted at the Reserve Bank and, consequently, a very large portion of the accounts of the member banks might be incapable of being available for credit at the Reserve Bank in time of need.

15,590. It is to secure the reserve banks from the temptation of accepting securities which may not be consistent with safety?—No.

15,591. It is not that?—No. The objection to the development of cash credit from the standpoint of the Reserve Bank is that it puts the assets of the member bank in a form where they are not available for use at the Reserve Bank in time of need and probably those accounts are the best assets.

15,592. Speaking about the Central Bank yesterday you also stated that if you retain the Imperial Bank it can be divided into compartments, one the bank of issue and the other doing commercial business. Would those watertight compartments lend themselves to sound financial working?—I made no suggestion, but I simply indicated that there might be three courses of approach in connection with the bank of issue. One would be to convert the Imperial Bank into a bank of issue. The other would be to separate the Imperial Bank into two different and distinct banks, and the third would be to organize a new bank of issue leaving the Imperial Bank substantially as it is.

15,593. That is your third suggestion?—That is merely a suggestion of a point for consideration, that there were three methods of approach. My object in suggesting that was principally to bring out what our experience showed as to the need for care in the reserve transfer and the transfer of Government deposits.

15,594. You also spoke about complete transfer of the note issue reserve to the bank. In speaking about the reserves, were you referring to the bank reserves, or to the currency and gold reserves?—To the currency and gold reserves.

15,595. If those currency and gold reserves were transferred to the Central Bank, can you indicate the lines on which the Government ought to be com-

pensated?—I do not think I could. I have not sufficient intimate acquaintance with the effects of such a transfer.

15,596. You cannot deal with that matter in connection with India on that?—No.

15,597. You would agree that the Government would need some compensation, because these were funds in the hands of the Government, and represented profits on the coinage of the rupee?—I do not think I have any opinion on that question of compensation.

15,598. (*Sir Henry Strakosch.*) I asked a question yesterday regarding the legal obligation to compel the member banks to hold a certain percentage of their liabilities with the Federal Reserve Banks, and I asked you why it was that the percentage to be deposited with the Federal Reserve Bank was different in the different localities. You suggested that you would later on mention what the reason was, but you did not?—I cannot say that I can defend that particular system, because logically it might appear under a banking system which had developed along different lines from ours, that country banks, being more remote from the Central Bank, should have a higher reserve. The reason for the difference of reserve requirements between the Central Reserve cities, the reserve cities and the country banks, was due to certain characteristics of our old system, where the country banks carried their reserves in the reserve cities and the Central Reserve city banks, and all of the banks of the country, including the reserve city banks, might carry their reserve in the Central Reserve City Banks, so that the development of the different size of reserves grew out of the feeling that a greater responsibility rested upon the banks in Reserve centres which were carrying a proportion of reserves for banks located in country sections.

15,599. If a new system were set up, you would, I take it, not advocate any such distinction being made as has been made under the Federal Reserve Act?—I think the proportion of reserve would have to be based upon very different considerations than those which existed in America, when this particular practice was incorporated in law. You understand that before the establishment of the Federal Reserve Act country banks were required to carry a certain percentage of reserve, of which a portion had to be in cash, in their vaults, and a portion might be carried with a correspondent bank in a money centre. That is what led to requiring a higher percentage of reserve to be carried by the commercial banks located in the money centres.

15,600. Yesterday you told us there are two ways of dealing with the relationship of the commercial banks and the Central Bank. One would be the one in practice in America, to let the commercial banks hold a certain given percentage of their liabilities with reserve banks, and the other would be the system adopted in this country, where no such provision exists, but where the Central Bank carefully discriminates for whom it opens accounts and rediscounts. In a country with an undeveloped banking system, and with what may be called a lack of banking discipline, would you not regard the system under which the commercial banks are compelled to deposit some of their Reserves with the Central Bank a preferable one to the one that has grown up in this country? What I have in mind is this. If you were to enact that any bank trading as bankers, that is to say, taking money on deposit which can be withdrawn by cheque, were held to deposit some of their reserves with the Central Bank, and at the same time to disclose its own status, as is the case in some of the central banking countries, that would conduce to educating the public to the duties of bankers better than if there were no such well-defined system?—The development should be considered rather historically. In the United States we had long periods of wild and reckless banking practices, which imposed great hardships upon the people of the country, and very severe losses at times. Not only have we the habit in the United States of doing a great deal by legislative enactment, expressed with great particularity, but in the case of banking our experience had been so unfortunate in former years that Congress and the legislatures were ready to impose very careful and precise restrictions upon banking, and not only that, but to introduce a very extensively organised system of reports and examinations. We do banking now too much by law in America, I think, and not enough by good judgment; but that is the way a system is liable to develop in a new country which is growing. Whether it would be wise in India to impose the same type of particular legal restrictions and requirements upon banking that we have in the United States, would depend upon a pretty thorough understanding of banking methods in India, how secure they are, and how certainly and carefully the business is conducted. In England it has been the development of centuries, but the growth in the United States had sprung up relatively almost overnight. The need for this type of regulation and supervision seemed to be apparent to everybody, at any rate that is the way we have grown. There are those who say that it makes very bad bankers. They try and do everything by law instead of by good judgment. The probability is that under such a system as we have had, banking has not developed quite as successfully as it might have done with some greater sense of responsibility. On the other hand, we may have been protected from banking disasters which would be very serious, and constant failures of banks that otherwise would have occurred. If you introduce such a system of careful scrutiny and examination, such as we have, it is quite natural that Boards of Directors come to rely upon the examination by the Controller, or the State Superintendent, as partly relieving them of some of their responsibility to see that the bank is always in a good condition. When you are dealing with a private banker, subject to no supervision whatever, you have wholly different conditions. My remarks yesterday were intended to suggest, as they probably have to your mind, the need for special study of that kind, and the desirability of not attempting to do what we did in the case of our Federal Reserve system. Considering that the Federal Reserve system has worked pretty well in America, it might be thought it would also work pretty well in India, but I am not willing to say that it would work well in India.

15,601. What has been suggested is this, that in a country unaccustomed to the Central banking system the functions of the Central Bank are usually not well understood. In particular, it is not well understood that the Central Bank is there to hold the cash reserves of the commercial banks. I have heard of instances where, owing to the absence of such statutory provisions, some commercial banks have refrained deliberately from depositing their cash reserves with the Central Bank. Such action largely impedes the proper functioning of the Central Bank.—We have had considerable experience in that very matter, when you consider that out of possibly 18,000 or 20,000 banks which can qualify to be members of the Federal Reserve system in America we have only about half that number, principally, the National Banks, of which there are a little under 10,000, who were required to be members. The State banks are permitted to become members, on conforming to certain standards. The membership of the State banks has been largely confined to the banks in the large money centres, which not only became better acquainted with the meaning of the system and the security afforded by membership, but really had greater need of membership—at least they thought they had, especially during the war—when the same conditions prevailed that you referred to. There are many good banks in the United States which might be members of the system, and probably

would profit by being members, but they still do not understand well enough what the Central Bank means to feel the urge to join the system.

15,602. It has been suggested that it would be proper for a Central Bank to undertake the savings bank business, that is, to allow interest on savings deposits. Would you favour that, or do you see any objection to it?—It certainly would not be a desirable thing in the United States. It might apply in India; but one of the outstanding objections lies in this fact: that the accumulation of a large volume of savings in the Central Bank, upon which liabilities for interest arise, makes it necessary for the Central Bank to lend money and earn money. Certainly we have learned in recent years that to inject into the operation of the Central Bank the regular practice of lending money for profit can sometimes do great damage. If the obligation to earn money was imposed upon the bank, by taking a type of deposit which required payment of interest, it might interfere with a normal credit policy. May I illustrate it by this very simple analogy from the United States? We hold about 2½ billion dollars of reserve deposits of our members. That is the reserve account of the nation. There has been a very strong desire at times expressed by the member banks that they should get interest on their balances just as they formerly did when they carried a part of their reserves with commercial banks,—say, 2 per cent interest. In order to pay 2 per cent. interest on those balances we would have to be able to earn 45 million dollars a year. In order to earn 45 million dollars a year to pay that interest, it would be necessary for us to expand our credit, at present discount rates, by 1,100 to 1,200 million dollars. In other words, it would force an inflation upon the country. Conditions in India may be different, and you may be able effectively to separate savings accounts and their investments from the credit operations of the bank of issue; but if it did have the effect of requiring the bank to earn money by investments at a time when it was not desirable, I should think it would be a very undesirable thing for the Central Bank to do.

15,603. You referred yesterday to the necessity that to have a properly functioning central bank there must be a money market. Would you agree that the establishment of a central bank is the best means of establishing such a money market, and that without a central bank a money market cannot be properly developed?—Yes; and it results in developments that are distortions of the money market. Prior to the establishment of the Federal Reserve Bank practically the entire readjustment of the money position of the banks of New York, and largely of the whole country, was effected through the Stock Exchange Loan account—a most undesirable situation. When reserve became impaired the banks called loans on the Stock Exchange for payments and we had a crash in Stock prices, money rates climbed, and there were all the difficulties of an unorganised money market. That is all avoided now. We do not have these occurrences because we have got a better organised money market, with the Reserve Bank to take care of these peaks and troughs of demand. They are very considerable in the United States. The Christmas demand alone for currency to do the shopping for Christmas presents imposes upon us an expansion of our loans of about 400 million dollars.

15,604. (*Chairman.*) Before we close the evidence, is there any other matter to which you wish to refer by way of correction or explanation?—I have nothing further to suggest as to our evidence. But I do not think that my colleagues and I would be satisfied to conclude this hearing without expressing our very great appreciation of the opportunity to appear before the Commission, and for the privilege of being able to make possibly some small contribution to its work. I think personally I should say from my own experience at home that no greater service can be performed to India than what has been undertaken by this Commission. The first 20 years of my banking life in New York stand out to-day as the experience of passing through recurrent years of strain, of anxiety and of disaster which the accomplishment of our reforms seems finally to have enabled us to escape, notwithstanding the occurrence of the worst war in history. So may I conclude by saying that we all feel great admiration and respect for the eminent men who are willing to lay aside important business and other obligations and devote themselves, as you gentlemen are doing, to a great service to the 300 million people of India.

15,605. (*Chairman.*) We are very much obliged to you and your colleagues for your assistance, and for taking so long a journey to put that assistance at our disposal, and for the very generous measure with which you have put your time at our disposal in the course of the last four days. I am sure I speak on behalf of all my colleagues when I say that I feel most profoundly that you have been of the greatest possible assistance to our deliberations.

(*The witnesses withdrew.*)

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